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With The Editors

Explain This—

It is very easy to find reasons why the stock market stays down while business activity, according to the Federal Reserve Board index, heads straight for new high records. It is so easy, in fact, that newspaper columns and brokerage house letters use it as a favorite subject. They are explaining an established fact and that gives them the authority to point out that it could not very well be otherwise. When we get through reading a well-done job of this kind we wonder how anyone could ever have been so naive as to expect a company's stock to go up simply because it is making larger profits.

They list the war as the first handicap to prices, and they sketch in somewhere in the background the after-effects of the war as sufficient reasons why even its end would not be particularly cheering. Then there are the growing and increasingly complex taxes to pay for our defense effort. This year's excess profits tax, we are told and no doubt correctly, is just a beginning; wait until you see what Congress will do next year. A little politics may enter into the recital, but it is mainly concerned with the sorry state of the world and the country that make you doubt there will be any stock market by 1945.

No one claims, of course, that we are as badly off as England. The threats we see ahead as possibilities they have already in their laps. They are down to the expedient of selling the family jewels to pay for defensive weapons that may or may not prevent the destruction of homes and industry alike. In their efforts to survive they are helping to create a business boom here.

Yet the London market has actually rallied *twice* as much in percentage since the early summer lows as ours has. In November, 1938, New York prices were 31 per cent above London; they are now only 37 per cent better. After two years of the British Empire's greatest strain, we are able to show practically no net gain over that market.

Either the English are wrong or we are taking our own troubles and theirs too seriously. On past record, we can be accused of overdoing either caution or rashness almost with regularity. Perhaps we are in one of our doubt cycles that still recur as part of the hangover from 1929. How else can you explain it?

* * * IN THE NEXT ISSUE * * *

WHO WILL BE OUR NEXT PRESIDENT?

By E. K. T., Special Washington Correspondent

Dozens of political experts are telling what they *hope* will be the result of the election. Seldom is a job like this done—first the findings of the various polls; then the opinions of those who should know in Washington; finally E. K. T.'s own forecast. A complete and impartial basis for judgment of the November 5th outcome.

ROUND-UP OF TOTAL ARMAMENTS ORDERS OF LEADING COMPANIES—TIMING FUTURE PROFITS

By Clinton Davidson, Jr.

Figures on Government orders run in two grooves—either grandiose lumped billions, or piecemeal bits that mean little standing by themselves. Here is the key to give them meaning, the totals cleared by the Defense Commission for each large company, then the estimated speed with which these orders can be turned into production—and profits.

WHAT COMING EUROPEAN INFLATION MEANS TO US

By V. L. Horoth

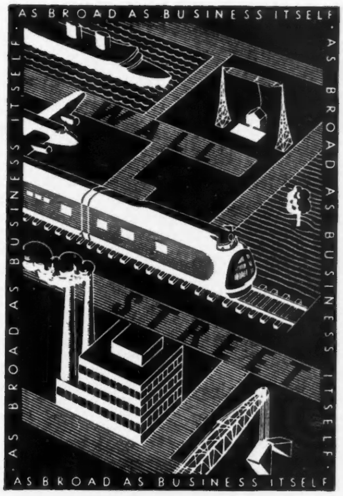
The Nazis are buying food and other supplies in France like honest gentlemen. But there is a catch. It is actually subtle, stream-lined looting, capable of tearing Europe's economy apart and shaking the rest of the world from Mozambique to Kansas City. These facts never reach the headlines, but they mean more to the business man or investor than a hundred destructive bombings.

Richie for U. S. Steel

Industry is flexing muscles not used in a decade, testing its limits of production, attempting to justify the nation's confidence in its own powers for peace or defense. The strain is severe, and it brings along new problems for the investor—see "What Value Common Stocks?", page 18, and "New Tax Law Effects on Investors," page 16.

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* : LAURENCE STERN, *Managing Editor*



The Trend of Events

DEFENSE OF WHAT? . . . Most of the armament orders permitted by Congressional action to date have now been placed. Do we stand pat for a while and concentrate on producing the armaments? Not at all. According to Washington reports, three additional phases of the national defense program are yet to be launched: (1) a national defense highway building program; (2) a national defense housing program; and (3) a national defense public power program, including development of the St. Lawrence.

At unlimited cost, we are apparently going to defend everything except the Government's credit and we are going to prepare against everything except the post-war economic slump. Spending for needed armaments can't be criticized. But in this situation it is something else again to hunt up a lot of "extras" on which to lavish Federal I. O. U's. The bigger this boom, the bigger the ultimate boomerang.

And when the aftermath begins to stare us in the face there will be demand—and necessity—for the Government to cushion the shock by shifting its spending from armaments to useful, peace-time projects. At that time a strong Government credit rating will come in handy and meanwhile it would be a good idea to tuck the highway, housing and power projects away in the files for future reference.

It's about time we put aside the somewhat hysterical fears of three months ago and get down to brass tacks. If Hitler can't cross the English Channel, how can he cross the Atlantic Ocean? To keep him from crossing either, our best bet is to equip the English in rapidly increasing volume over the next six months or year with the types of weapons most urgently needed: namely, bombers, destroyers and torpedo boats.

The only strategy that makes sense for us is offensive strategy: (1) to keep the war in Europe by helping England; (2) to keep hostilities out of this hemisphere even if England falls. Looking at both the objective and the time factor, bombers should come ahead of fighters; destroyers and torpedo boats ahead of capital ships. This will remain a sea and air war, as far as we are concerned. If we effectively keep it so, we shall find—long before present plans are carried out—that we will not need a European-size army.

NEARING CAPACITY LIMITS . . . The most spectacular phase of the rise in industrial activity has been put behind and we are nearing a point where the only question will have to do with staying up there. In short, we are not very far from effective industrial capacity. In theory, considerable unused capacity can be cited. In theory, machines now working one shift could be run

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twenty-four hours a day, subject only to stoppages for repairs. But bottlenecks of one kind or another always are encountered as capacity is approached. It may be shortage of skilled labor; or shortage of housing facilities near the plants; or shortage of key materials or parts. Moreover, the amount of new machinery and machine tools that can be installed in any one year is always relatively small in relation to total existing capacity; so that, even if none of the above bottlenecks existed, industrial capacity in 1941 could be expanded only by a relatively small percentage.

What this apparently means is that industry is likely to operate at a boom level at least through the first quarter of the coming year, but what happens after that is not so easily predictable. In a not distant future capital goods orders not directly related to the armament needs may decline. If past history is a guide, the present high level of new orders for consumer goods may run to excess, outstripping even a favorable level of public demand and calling for correction. Still higher taxes may conceivably put something of a crimp in consumer spending for non-essential civilian goods.

Although 1941 will be an active business year unless the war suddenly terminates, the increasing tendency to take it for granted as a guaranteed up year, without downward fluctuation of any kind, perhaps invites a bit of skepticism. Although any turn to reaction is probably several months or more hence, evidence of excess is beginning to accumulate and will bear watching. A time may come within the first half of 1941 when it will be discovered that private business expansion had been over-rapid and that actual armament production had not yet become the whole story.

PRICE CONTROLS . . . We shall hear increasing debate on prices and price controls as the armament boom gathers momentum. The *potentiality* for inflationary price rise is the strongest in many years—far stronger than when President Roosevelt was experimenting with his gold policy and trying by hook or crook to get the general price level back up to the average of 1926. Deficit spending will create national purchasing power at a prodigious rate; total demand for materials and goods has already been pushed to a new record high and will mount further on the triple pressure of armament orders, British war orders and active civilian business.

But while some rise in the price level is certain, the practical question is one of degree. As to this, it should be illuminating to note that industrial activity today is well above the 1937 high—measured by the new Reserve Board index—but this publication's index of raw materials prices has advanced only to 73.1 from the year's low of 67.9 and is 20.7 points under the 1937 high of 93.8. Commodity speculation is unlikely to get out of hand as it did for a few months in the winter of 1936-1937 both here and abroad. Ex-speculation on any major scale, increasing supply will moderate the price rise. In some instances, small price rise would serve the valid purpose of increasing output of needed materials by marginal producers. If we wish to make absolutely sure that prices will stay within desirable bounds, the soundest method would be to finance a much increased proportion of the armament spending out of taxation. Simply as prudent fiscal policy, a good argument can be made out for this approach—but presently indicated price tendencies do not in themselves demand it.

To be really effective, outright government price-fixing would have to be as thorough as that of totalitarian Germany but this would not be acceptable in a democracy. Controls acceptable to a democracy have never proved as effective as their sponsors anticipated. Fortunately the question is largely academic. We have a major production problem on our hands but it is unlikely to set up an equally imposing price problem.

FREE SPEECH . . . You would think that the right of free speech, explicitly guaranteed by the Constitution of the United States, applied to *all* individuals, including employers of labor. But with a cautious eye focused on the Labor Board, employers heretofore have not been able to take this for granted. You see, with this Labor Board, even if you win, you lose. That is, if you have to hire some lawyers to guide you through a Board proceeding and then through the Federal courts, it's bound to cost you a pretty penny.

So most business men have been leery about voicing their views on union matters to their employees. It is a matter of record, for instance, that one employer declined to discuss his side of a union dispute with the press because of fear of getting entangled with the Labor Board. Others have declined to answer even factual questions asked by employees concerning union matters.

While we hold no brief for the Ford Motor Company or its general attitude toward unions, it has been entirely correct in insisting upon its right to express its views freely and fully to its employees. In its proceeding against Ford the Labor Board has contended that the right of free speech was qualified, rather than absolute. Thus, as administered by the Board, the Wagner Act collides with the Constitutional guaranty and, in the opinion of the Board, supersedes it.

As should not be particularly surprising, the Federal Circuit Court of Appeals at Cincinnati has now ruled against the Board and for Ford on this particular issue, holding that "freedom of speech guaranteed without exception to all is the more fundamental right here involved." There remains the final review by the Supreme Court. If it holds with the Circuit Court of Appeals, employers in future can feel secure in saying what they think provided they do not resort to coercive threat or action. In the present world any victory for free speech is worth noting on the record.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 8. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue.

Monday, October 14, 1940.

As I See It!

BY CHARLES BENEDICT

PLOT AND COUNTERPLOT

WITHOUT a battle Germany makes her way through the Balkans to the Black Sea—and oil!

When King Carol fell the Nazis won the first lap for control of strategic Rumania And now with the occupation about complete, there falls into German hands a prize of great magnitude—the gateway to the Near East. No wonder Stalin remains silent.

For the first time since Czechoslovakia the Nazis take over without firing a shot. They are assured an essential supply of oil—most ideally located on this strategic springboard to the East.

Up North, Englishmen are risking their lives to destroy Germany's stock of oil. In Rumania, Englishmen failed to destroy the English-owned oil wells before the Germans moved in.

While Englishmen are fighting for their very existence and for the preservation of their homes and liberties, it would seem that other Englishmen whose interests encircle the globe are still intriguing and bargaining to maintain their personal power and wealth.

"Appeasement" has cost the English people heavily in blood and untold riches. Yet there are those who still cling to it if we are to judge by the implications of scandalous neglect in Churchill's reference to Dakar in his speech before the House of Commons on October 8th.

It seems that the great mistake was in having sent Sir Samuel Hoare, notorious appeaser, as British Ambassador to Spain.

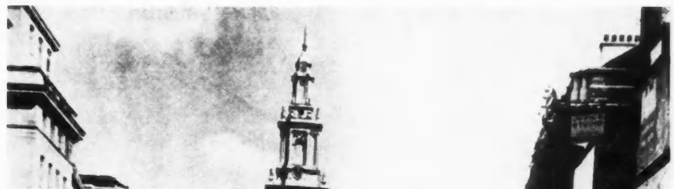
Apparently, the ruling clique—represented by Chamberlain—have learned nothing from their experiences. Blinded by self-interest, they persist in "deals" to perpetuate their control—continuing the course that has been so detrimental to the interests of the British people and the Empire. Stubborn and self-willed, they possess a dictator complex comparable in every way to that of Hitler, Mussolini or Stalin.

Evidence that a shakeup is brewing behind the scenes is to be had in the significant statement by Minister of Labor Ernest Bevin in London on October 9th. The Labor Leader, looked upon as the likely choice for Prime Minister after the war, said that for the first time a "very close liaison" has been established between the Labor Ministry and the British Foreign Office. "The object of that," he said, "is to get the whole diplomatic service to realize they move in a new environment and to recognize the limited court circular society of the chancelleries never will return."

Conservative Party vs. Churchill

When Churchill came to power it was with the grudging consent of the conservative party. Chamberlain retained his place as a member of the government and other important posts remained in Tory hands.

Sir Samuel Hoare who would not have been acceptable to the British people in (*Please turn to page 62*)



Wide World Photo.

The Strand in London is now marked by bomb craters, but Hitler's picture has yet to be taken in Buckingham Palace, and New York skyscrapers are still out of his reach.

The Market for the Next Fortnight

We do not expect recent highs in the averages to be significantly bettered over the near term; and we therefore adhere to a generally cautious policy, although a few "special situation" groups invite speculative consideration.

BY A. T. MILLER

Three times over the past five weeks the market has backed down from the resistance level denoted by 134-135, Dow-Jones industrial average. None of these minor trend reactions has exceeded 7 points. Whether the most recent one amounts to something more before it is over or not, we do not attach any significance to the mild improvement in tone which developed in the final trading session last week and which is being maintained as this is written.

The market has now been in an intermediate upward trend for approximately four months, with the rank and file of equities lagging well behind leader type industrials. Retreat from recent average highs is not the only evidence that the intermediate advance has lost vitality. Volume indications also show it.

Whether what lies ahead is a phase of desultory and rather narrow trading range fluctuation or a set back deeper than any recently seen, it is pertinent to pose the question: Is there adequate basis for advance materially above recent average highs?

Normally the chief element in a rising stock market is rising business activity and earning power. And normally the market runs ahead of a favorable business and earnings trend, discounting a promising or hopeful future. But there is, of course, nothing normal about our present situation.

The existence of a business boom has been obvious to all for some time; and there is scant reason to suppose that the market can in future discount something which has already happened. Since so many industries are near capacity, additional business expansion at best could be only relatively modest as compared with the rise already experienced. The conclusion is inescapable, we think, that any worth while advance in the market averages can only come about when and if investors and speculators become sufficiently confident to place a higher valuation on existing business volume and earning power.

There are many valid reasons—heavy taxation and uncertainty as to future tax changes ranking high among them—why war and armament earnings should command a substantially lower price-earnings ratio in the market than peace time earnings. Because the imponderables play such a major role in this matter there is, unfortunately, no method by which we can determine even roughly what minimum and maximum price-earnings ratios *should* be in a war and armament economy. The experience of the World War period is of very limited help and the fact that price-earnings ratios today are generally much higher than in that period proves nothing one way or the other.

Common stocks are much more widely accepted for investment portfolios today than was the case a quarter of a century ago. Again, because the "going wages" of money, as reflected in interest rates and return on first quality bonds, are so much lower than formerly, secure dividend return is worth a substantially higher price than it was worth twenty-five years ago. Against both of these considerations is the fact that the possible economic, social and political implications of this war have to be accepted by intelligent investors as far more sobering than those presented by the first World War.

Certainly for the near term we are unable to see any basis for significant rise in existing price-earnings ratios. The war clouds are still very dense. Although the Japanese bluff in the Orient has been very largely deflated and fear of invasion of England before next spring at the earliest has virtually been eliminated from our considerations, the fate of the British Empire still hangs in the balance and our precise role in future world events is still unclarified.

We do not know how much damage German bombing is doing to English industrial facilities, but the increasingly urgent pressure upon us to step up production of war goods for the British—especially bombers—is a reminder that the English position is still very serious, even if something better than imminently desperate. The mass bombings of English cities will continue and recent developments indicate a simultaneous major Axis drive this autumn and winter against none too strongly held British positions in and adjacent to the eastern Mediterranean. Near term developments and possibilities in this campaign of the war can hardly be regarded as

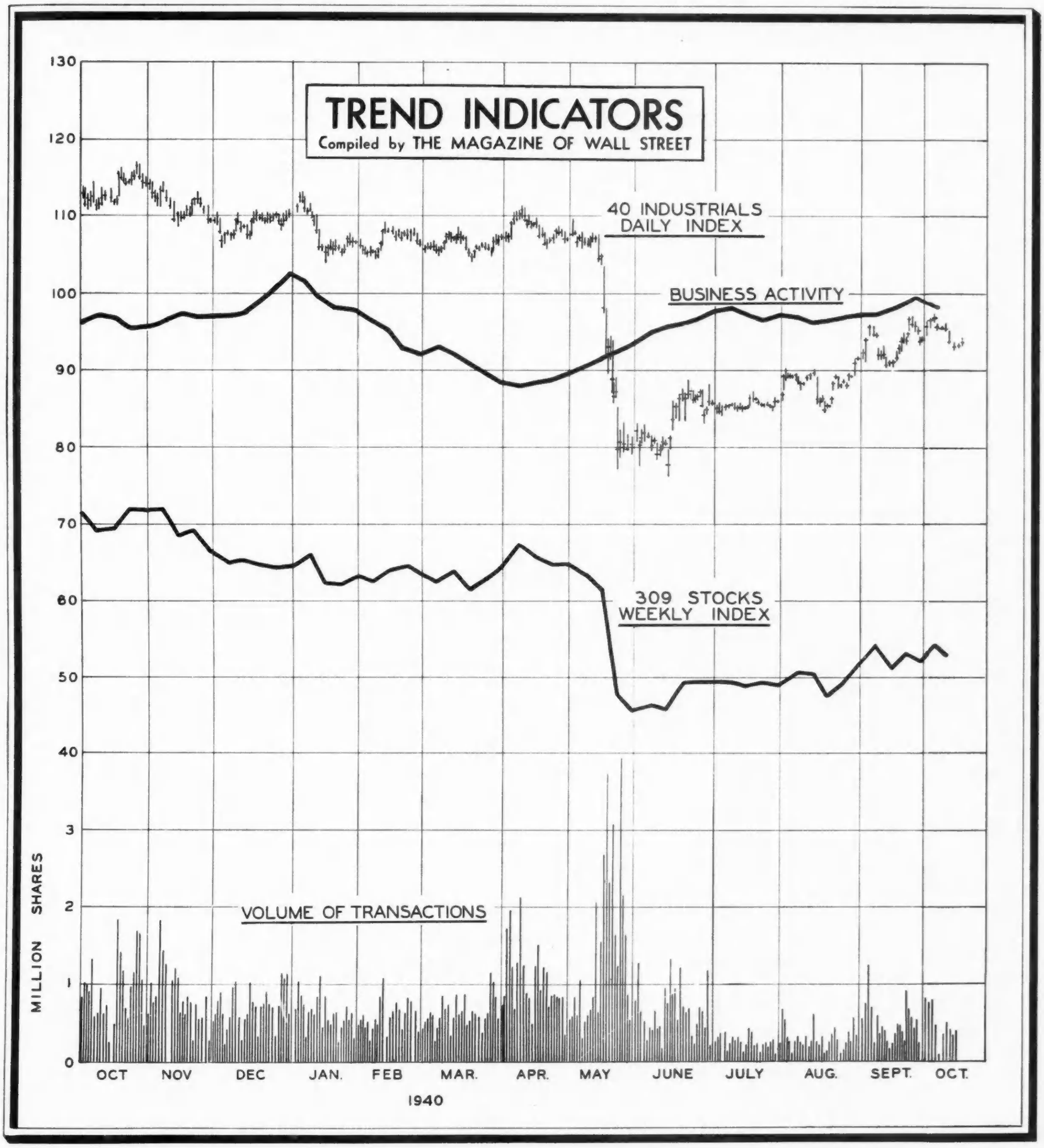
other than a restraining market influence, in our opinion.

Finally, the uncertainties of a hard-fought national political campaign must be reckoned with and especially so in the season immediately ahead.

Putting all of this together, we believe the odds are against near term advance. If that is so, the alternatives, of course, are sidewise drift in a trading rut or more reaction. Either way, we do not recommend purchases of common stocks—for the objective of appreciation—at the present time.

Yet with a business boom guaranteed and with wide variations in the impact of higher taxes upon different types of securities, it is improbable that complete speculative defeatism can prevail. The industrial average—indeed, any index of a limited number of equities—does not by any means tell the whole story. Often in periods when the industrial average is going no place in particular discriminating speculation finds outlet in "special situation" issues or groups.

Four groups of securities—steel preferred shares, second grade rail bonds, New York city bank stocks and Canadian gold mining shares—are cited in a discussion on page 39 as examples of issues affected by special influences largely unrelated to general trend of equities. To these might be added the air transport stocks, favored by a dynamic growth which is unrelated to war and with nothing to fear from excess profits taxes because of special exemption. —Monday, October 14.



Government Policy After the Election

If Roosevelt Wins **If Willkie Wins**

BY E. K. T.

FEW drastic changes in major government policies are to be expected in the next few months, regardless of whether the Democrats or the Republicans win the election. That is, few changes in the policies that can be written down on paper in broad terms.

The Republicans are campaigning on the basis of following the general outlines of the Administration's foreign policy and continuing most of the New Deal social reforms, while the Democrats are campaigning on their record, making neither promises nor concessions. The presumption is that whoever is in the White House, Congress will be rather evenly divided and so will serve as a check against a radical swing in any direction. So if Roosevelt wins we will have a little more of the same, and if Willkie wins we will have a little less of the same.

But the important differences between the candidates and the important issues in the campaign are not the printed platforms and specific policies, but rather the underlying and less definable theories of government, attitudes toward business, and methods of administration. In these fields Willkie promises a big change. Roosevelt would continue the theories, attitudes and methods of the last eight years.

Foremost in government policies are foreign affairs and defense program. Broadly speaking, Roosevelt and Willkie are taking the same tack on both, but there are important differences in methods and approach.

Foreign. Willkie is not an appeaser, opposition politicians to the contrary notwithstanding. He will continue all possible aid to Britain short of war, and to all countries fighting aggression. He will not compromise with Germany if Britain is defeated. If this policy leads the country to war, Willkie will fight, but he will postpone entry longer than Roosevelt will. Isolationist Republicans in Congress may put a slight brake on our foreign policy under Willkie, but in the long run they will be no more effective than isolationist Democrats under Roosevelt. While there will be no hiatus in foreign policy under Willkie, there will be a brief period without new developments while he takes stock of the situation and substitutes seasoned diplomats for campaign contributors at foreign posts. He will not threaten foreign nations nor get maneuvered to the point of war until our armed forces are ready to back up his diplomacy. Policy in Asia probably will be about the same under either Roosevelt or Willkie. Likewise in South America, though Willkie will be slower in making loans there.

Defense. The defense program, as it is on paper, will continue under either candidate. Willkie will re-examine it and define its objectives without halting what has been started. He will enlarge the powers of the Defense Commission, give it a chairman, and coordinate efforts now being dissipated in various directions; he will keep defense free from entanglement in social reforms and pressure politics; will pick executives experienced in the problems assigned to them; and will inspire confidence in business. All this will help speed the defense program if only through improvement in morale. Roosevelt will continue to head the defense program personally. He will keep some business executives in key positions but will listen more to social reformers and those who want to hook their own programs on the tail of the defense kite. The nation will achieve defense under Roosevelt but the program will not reach the highest possible speed and efficiency because of the constant interference of those of his advisers who do not understand business methods.

Budget. Roosevelt will continue heavy spending, much of it in lump sums controlled by himself, under philosophy that deficit spending is a good in itself, priming the business pump and redistributing wealth, and that in some way this will eventually raise the national income so that the debt ratio will not be burdensome. This means more subsidies to various groups,

continued lower interest rates, banks still further stuffed with government bonds, and eventual inflation. Willkie will not balance the budget at once, not in four years if the defense program keeps growing, but he will stop the policy of spending for its own sake, will cut down subsidies, will make huge savings through economy and elimination of bureaucratic deadwood, and will eliminate trick bookkeeping and blank-check appropriations. This will greatly lessen the danger of inflation and have a tendency to raise interest rates somewhat and provide more opportunities for investment in productive enterprises.

Taxes. Roosevelt will continue his policy and that of his fiscal advisers of using tax laws as a vehicle for social reform, for redistributing wealth, and for penalizing bigness and success in business. The undistributed corporation profits tax will be revived, there will be further taxes on consumption, and the excess profits tax act will be changed to include the things the Treasury wanted in this time but were forced out by business opposition reflected in Congress. Willkie will raise taxes somewhat also, but will put through a scientific reorganization of the revenue laws, minimizing hidden and consumption taxes, recognizing principle of ability to pay, and avoiding taxes which destroy their source. He is pledged not to use tax laws for reform purposes.

Wide World

Labor. Roosevelt will continue all labor laws and policies, will resist changes in the Wagner act or its administration, will reappoint Madden as chairman of N L R B, will enlarge the Walsh-Healey act and prevent government contracts from going to companies with labor troubles, and will continue to ignore union domination by communists and racketeers. Willkie will continue collective bargaining principle but will improve N L R B administration through change in personnel if possible or through moderate amendments to Wagner act. He will retain the wage-hour law but permit legislation removing some of its admitted difficulties. He will give organized—and unorganized—labor recognition in formulating government policies but will not permit the former to dictate policies, and will encourage unions to stop their feuding and weed out subversive elements and parasites.

Unemployment. Roosevelt will continue federal relief and made work on present basis and at current costs. Willkie will adopt policies toward business which will stimulate private employment. He will continue federal appropriations for relief where absolutely necessary but will reduce the cost greatly by making local authorities responsible for administration and part of the cost, eliminating political influences, boondoggling, wastefulness, and social reform. Unemployment relief will be treated as a temporary evil rather than as a permanent and desirable social program. The needy will not starve but there will be no more careers on relief.

Agriculture. Roosevelt will continue heavy spending to curtail production, subsidize credit, and keep rest of many-sided and expensive program going, including increasing amount of federal domination. Willkie will not make much change, if any, immediately, but will work toward elimination of political influence in the farm program, balancing production with domestic requirements, reduction in cost, and a two-price system, but will lay most stress on belief that increased industrial activity under his administration will restore farm parity without subsidy.

Tariff. Roosevelt will make more reciprocal trade agreements on the pattern of present ones. Willkie will keep the law but revise the procedure to provide more publicity as to negotiations, retain more protection for agriculture and other domestic industries, seek greater concessions abroad, and confine benefits to nations who give concessions rather than generalizing them to all.

Social Security. Benefit payments will continue under either candidate, but Willkie will revise unemployment compensation section to reduce costs, stabilize employment, and confine payments to persons seeking work. Old age section will be changed to pay-as-we-go basis, eliminating huge reserve fund and reducing taxes.

Recovery. Roosevelt will depend on federal spending to bring recovery. Wilkie will seek recovery through federal economy and government policies encouraging business to expand.

Reform. Roosevelt will press for rapid expansion of the New Deal social reform program. Willkie will retain accomplished reforms and attempt to iron out their kinks and get the nation adjusted to them before encouraging further experimentation.

Business Regulation. Roosesevelt will expand federal control of business. Willkie will retain present controls in general but make them less harsh and burdensome, placing administration in more sympathetic hands, and will not use anti-trust enforcement or regulatory laws as a cloak for reform or persecution.

Federal Administration. No change under Roosevelt; brain trust will remain, bureaucracy will expand, Congress will continue to be regarded by him as a rubber stamp. Willkie will bring in new set of Cabinet officers and lesser advisers, will curb bureaucratic power with the Walter-Logan bill, and will restore balance between legislative, executive, and judicial powers.

Utilities. Roosevelt will continue to treat public utilities as public enemies, will crowd expansion of public ownership, and break up big utility systems. Willkie will continue S E C regulation but lighten enforcement

of "death sentence," continue cooperative rural electrification, confine federal power projects to those which private industry cannot handle adequately, and foster local option on public or private power. To conserve the Federal credit during the period when huge expenditures for national defense will be unavoidable, he would oppose major new Federal power ventures.

Railroads. President Roosevelt, who promised to do much about the railroad problem in his 1932 campaign speeches, has been notably apathetic to rail legislation. Willkie would be more sympathetic to the carriers and to any demonstrably helpful legislation which did not conflict with the national interest.

Monopoly. No President will ever favor "monopoly" but this much-abused word means, in terms of anti-trust suits, about what the administration in power wants it to mean. Willkie would make much less of a political issue out of the subject; Trust-Buster Thurman Arnold would promptly go back to teaching law; administration of the anti-trust statutes would be in general more friendly, less punitive. Roosevelt would continue the present line of attack.

Gold. Our gold-buying policy and the general question of Federal "credit management" have, of course, not figured in the campaign for nothing could have less political sex appeal. In putting major emphasis on encouragement of private investment and business initiative, Willkie presumably would put less faith in cheap money and control of interest rates as economic stimulants. As a practical matter, however, the Government will have to continue borrowing heavily for a long time; and the gold picture cannot change until after the war in any event. Therefore, whether it's Willkie or Roosevelt, major change in gold policy or credit policy cannot be expected.

Congress. If Willkie is elected, he will face the certainty that at least for two years the Democrats will have a clear majority in the Senate. If Roosevelt is elected the chances, at this writing, appear very strong that he will be confronted by either a Republican majority in the House or by a bloc of Republicans and anti-New Deal Democrats sufficiently strong to exercise a veto power on legislation. Neither Willkie nor Roosevelt would have a rubber-stamp Congress.

Summary. The forces at loose in this world are far more powerful than any individual, whether he be President, Premier or Fuehrer. We shall have to spend unprecedented sums for armaments. We may possibly find ourselves directly involved in war. We may possibly be confronted with a destruction of Britain's power to resist. Under these circumstances what either candidate promises can be taken as little more than a good intention—an expression of what he would like to do. As long as this crisis lasts, the tendency inevitably must be toward more Government controls of our economy, more spending, more State-ism. The difference between Willkie and Roosevelt, therefore, would be largely a matter of attitude and method.

LATEST POLITICAL POLLS CONTRADICTORY

One thing the approaching election is almost certain to accomplish is the elimination of one or more of the numerous "polls" that claim to have the ideal method of telling in advance how the vote will go. Some of them, this time, must be far wrong.

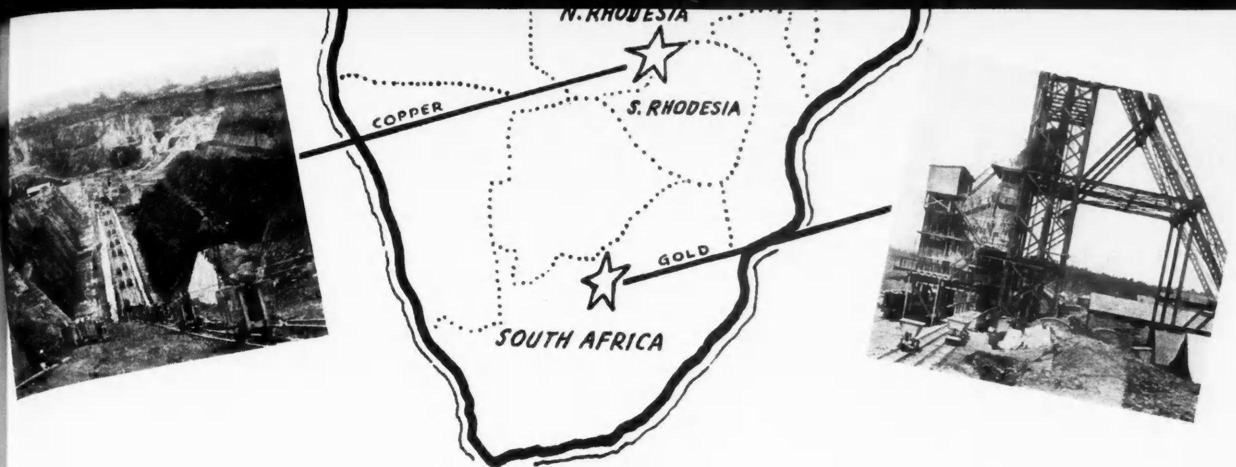
For example, the latest Gallup survey shows the Democrats leading in 42 states with 499 electoral votes and the Republicans ahead in 6 states with 32 electoral votes. Released within a few days of these findings was the Dunn Survey, indicating a minimum of 27 states with 334 electoral votes to be won by Mr. Willkie.

The Gallup poll does not claim complete accuracy. Its average margin of error has been in the neighborhood of four per cent from all causes combined, including the relatively small size of the samples used to read the intentions of the electorate as a whole. Taking the states in which the Democratic advantage is 52 to 48 or less—New York, Michigan, Massachusetts, Iowa, New Hampshire and Indiana—a total of 112 electoral votes is thus on the borderline. Since 266 votes are required to elect this would still leave Willkie 122 votes short. To attain a majority he would have to get all states which are now shown as leaning toward Roosevelt by margins of 55 to 45 or less, and that would include such powerful electoral votes as those of Illinois, Ohio, Pennsylvania and New Jersey.

Every single one of the states mentioned as at all near the borderline in the Gallup poll is given to Willkie in the Dunn Survey. Even California, on which figures are not complete, is indicated as leaning toward the Republican side, although other guides including the betting odds call California Democratic in this election. This Survey was correct in 44 states in the 1936 election, so must be credited with some excuse for findings so different from those of the Gallup poll.

Betting odds still hover around 2 to 1 in favor of a third term. However, the odds are always prejudiced in favor of the titleholder; just after the convention in 1932 Hoover was the favorite.

The frankest statement of the present case was made in the report of a survey by Fortune. Pointing out that Willkie could gather in 328 electoral votes or 62 more than needed for election if he retained all his sure states and took the ones still doubtful, the survey admitted the possibility of a defeat for him as decisive as Landon's if he lost all the close decisions. In other words, the trend is still the vital thing in the sections which will decide this election. In early summer it favored the Republicans, then Democratic strength made sharp gains, and now, as the backstretch nears, the whole campaign teeters with the developments in the news. It can still break in either direction to the confusion of the public opinion polls which tend to measure the past rather than the future state of mind.



The Economic Prizes of War

The Stakes Have Changed Temporarily From the Destruction of England to the Oil, Gold, Copper and Food Less Ably Defended — and Essentially More Valuable to the Axis

BY JOHN LLOYD

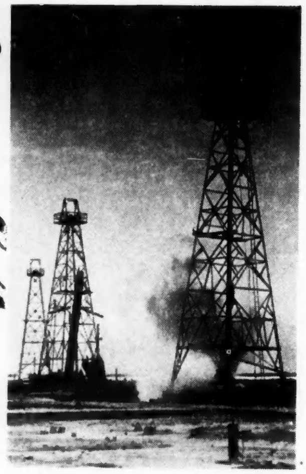
THE winter weather that once enforced an annual pause in military campaigns is now an open invitation to Germany and Italy to shift their efforts southward. Conquest of England has been proven difficult if not impossible and would almost certainly need the help of calm seas and clear skies. But to wait until next year for them would be weak strategy on the part of the Axis, for they are very slowly being starved for the raw materials of war by the blockade, while American help to England increases. The Axis must do something, even if it is only a gesture to satisfy the public that progress is being made, or a feint to pull the British off balance. One of the simplest and surest predictions so far possible in this whole war is that the Mediterranean and the Near East, Africa or even the Far East, are going to be the key spots on the map for the next few months.

These are actually far richer prizes than England in an economic sense, and they are presumably not so well defended; their capture would be less costly. It is true that to break the back of London and industrial England would be the checkmate to end the war on European soil, but Germany and Italy might still find themselves blockaded—and exhausted. Having gained little in the way of needed raw materials in England, in addition to some thoroughly bombed factories, the Axis partners would have still ahead the task of collecting the real loot of the war—the territories that would supply them with the oil, food, gold and copper for which they are in the last analysis fighting.

Berlin and Rome are reported to have agreed already upon a division of the spoils—all of northern Africa from Gibraltar to Suez and down the Red Sea to be Italy's, and the rest of the continent Germany's. Japan will have to trust her partners' table manners to leave her in control of French Indo-China, Thailand, the Netherlands Indies and any other British or American possessions she can get. When and if the maps are redrawn according to Axis plans the world will be a really new one in which the United States will have to flounder considerably to get her bearings.

One of the first concepts to require revision if the Axis should succeed in a drive to the south and east is that of industrial Europe leaning on North and South America for its food and raw materials. Most European countries have long been building up their agricultural production and a determined drive is doubtless on the plans to put fertile African soil to use as a principal auxiliary. It is not generally appreciated that the Sahara is only part of the dark continent, that millions of acres there are ready to bear almost every known crop. By subsidizing production in Africa, Europe could make the competition to supply her needs so intense that the United States and South America could never again hope to set fair prices upon their export crops. The wheat and cotton farmer would be up against native labor, practically slave labor, which would insure rock bottom prices for the agricultural products Europe must buy.

All this would take time, of course, but there are more immediate inducements to move the fighting southward. For instance, that most important munition of war, gold. Over one-third of the world's supply comes from South Africa, where four out of every five men employed work in the production of the yellow metal. The Germans and the Italians have mixed their signals in their feeble



efforts to convince the rest of the world that they do not need gold. If they had greater supplies of it there is little doubt that Britain would have run into more trouble with native uprisings in her Empire. Gold is the prime instigator, the proselyter without peer, and the motive back of most treason. Germany would be glad, if she could, to sell us planes or tanks in exchange for some of our apparently despised gold.

The population of South Africa, it seems safe to say, is more vulnerable to possible fifth column activities than were those of Belgium, Holland, France or Finland. There is a constant question as to whether the 2,000,000 Europeans out of a total population of 10,000,000 in the Dominion will continue their nominal partnership with the Empire in the war. General Smuts has so far kept the opposition from interfering in any serious way, but the division of opinion creates opportunities for German trouble-making, even with the British navy standing ready to help keep the Union in line.

If Germany could get a foothold in South Africa, she would gain gold resources of tremendous importance, even if it accomplished no more than to keep them out of the hands of England. The Transvaal alone (one province out of four) produced 1,200,000 fine ounces of gold in August, which sets a new record and at the $35 price is at a rate worth over half a billion dollars annually. She would also acquire one of the great diamond-producing regions of the world, together with substantial resources of coal, copper, tin, iron, lead, manganese, chrome and platinum. But whether Germany or England controls South African gold is hardly likely to make much difference to American producers.

If South Africa were to fall as a prize of war, Rhodesia and the Belgian Congo would doubtless follow. These territories are third in world output of copper, exceeded only by the United States and Chile; the Belgian Congo is outranked only by South Africa as a diamond producer. Over 90 per cent of the world's supplies of radium formerly came from Belgian refineries supplied by the Congo. Gold, tin, cobalt and silver are also available.

The immediate effect of a German conquest of middle Africa, provided the war were still going on, would be to force England to the Western hemisphere for copper supplies. Germany and Italy might not be able to get the metal through to their own countries, but they would shift world buying very considerably. The longer term outcome, regardless of who controls African copper, is almost certain to be an increase in production which will hurt the market for the Americas. With General de Gaulle already in French Equatorial Africa, and "Free French" forces consolidating large parts of the continent, control of Dakar and a few other cities by Vichy is of little importance.

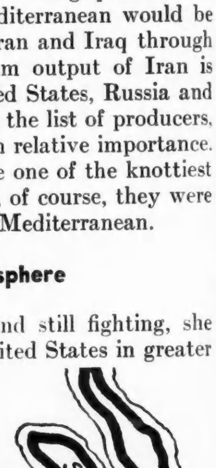
These territories which we think of as hopeless jungle will some day be highly developed agricultural regions. If Germany and Italy get their hands on them, they will be forced by their lack of buying power in the western hemisphere to make unusual efforts to hurry the process. If England retains control she can afford to let things go along much as she has in other parts of the Empire and the balance between Europe and Africa to the exclusion of the Americas will be slower in coming.

The Italians are already on the march into Egypt, apparently finding the going hard. The motive of this attack is primarily strategic and directed at control of the Mediterranean through Suez, but Egypt as an economic prize is not to be underrated. She produces only 4 per cent of the world's cotton, yet it is by far the best and suited to purposes for which other cotton is useless. Sugar, rice, wheat, onions and eggs can be obtained from Egypt in increasing quantities if an intensive effort is made to step up her production. In addition, it is not generally known that Egypt is already producing oil in substantial and increasing quantities.

Mastery of this part of the Mediterranean would be the key to the oil pipelines from Iran and Iraq through Syria and Trans-Jordan. Petroleum output of Iran is exceeded only by that of the United States, Russia and Venezuela, and Iraq is also high on the list of producers, with both regions gaining rapidly in relative importance. Capture of these prizes would solve one of the knottiest problems facing the Axis, provided, of course, they were able to transport the oil across the Mediterranean.

Oil from This Hemisphere

Should this happen, with England still fighting, she would turn to Venezuela or the United States in greater part for her oil supplies. In fact, although Venezuela has a slight edge as a prospective supplier of crude under such circumstances, there is a good chance that American refined products like aviation gasoline would flow across the Atlantic in a greatly augmented stream.



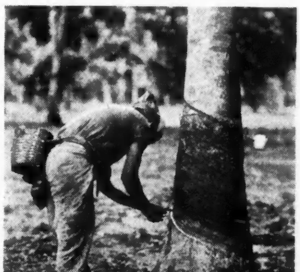
American capital is heavily engaged in the Near Eastern oil fields and would suffer as it has in Rumania if present German thrusts by land and Italian naval operations should reach such a goal. It would be only partial recompense to these same companies (in many instances) if the loss of their properties in Iran, Iraq and Saudi Arabia should result indirectly in increasing their sales from American or South American fields.

While British seapower remains intact, not a great

deal of apprehension is felt concerning southern Africa or the Near East. This might conceivably be a short-sighted attitude. A determined body of men with full mechanical equipment and airplane communications, if once established on shore, can resist extremely heavy attacks from warships. With their planes and a few submarines they can even make it too dangerous for a naval force to stay close enough to attack. The recent attempt of the British to take Dakar was not a fair test—Great Britain was not prepared to use all her strength, nor were the defending forces equipped as completely as they might have been—but it showed that while a navy is still useful against a navy it has new limitations in any clash with land defenses.

Fortunately, the same thing is true in the case of Japan's aspirations toward the Netherlands East Indies. Nothing so simple as the squeeze into French Indo-China can be expected. Indo-China has not been defended with resolution because of the lack of preparations and of leadership, and also because the region is not so rich a prize as the Indies. Its rice, rubber, fish, coal, pepper, cattle, hides, corn, zinc and tin are available in small quantities, to be increased only with years of exploitation. The materials Japan wants are elsewhere, with Indo-China and even Thailand (Siam) important mainly as strategic steps into China or southward.

The Netherlands East Indies remain the fabulous storehouses of valuables they have always been. In addition to their sugar, coffee, tea, cocoa, indigo, spices, chinchona, tobacco and copra, their oil wells are among the most productive in the world, and their tin and rubber are of vital importance to the United States. Individual American companies have rubber plantations in this region, as shown in the accompanying table, but the question of supply to this country is far broader than that of the risks assumed by American capital. Steps on the part of the Government to acquire stocks of tin and rubber have succeeded in easing the problem to some extent already. In addition, plants are being erected in the United States for the smelting of Bolivian tin ores and preparations are being made to go into volume production of rubber substitutes. Yet despite greater progress than ever before made in the direction of independence from Netherlands Indies raw materials, the situation is still critical for U. S. industry.



The reassuring element here is not the prize—that is too rich for Japan to ignore. It is the cost of a venture down to the Indies, with the British and American fleets to be feared, both possibly based on Singapore; and it is the virtual certainty that any Japanese invaders would find the oil wells thoroughly out of commission in case they were successful in subduing the islands. Oil is Japan's principal immediate need, and the surest way to keep it flowing into her ships and planes is to refrain from fighting for it.

Thus, the richest prize of all is likely to be one of the last reached for. But as reassurance for the United States this is unsatisfactory, for with any general melee in the Far East, whether involving the Russians and ourselves or not, the advantages to Japan in holding off an attack on the Indies would vanish. Then this country would be hard put to it to get along with auxiliary tin and rubber supplies, the tire companies would probably have to raise prices or even be put under rationing regulations, and substitutes for the tin can would undoubtedly be called into use.

The relative probabilities are fairly clear. Egypt and Suez are already under attack by the Italians, while at the same time Algeria and Tunisia are scenes of constant moral erosion with their eventual fate unsettled. While Italy pushes from Libya eastward along the southern shore of the Mediterranean toward the Near East, Germany makes (*Please turn to page 56*)

American Companies With Interests in Newly Threatened Areas

American Metal . . . South African holdings include Roan Antelope Copper Mines and, through Rhodesian Selection Trust, Mufulira Copper.

Firestone Tire & Rubber . . . One million acres leased in Liberia on the western coast of Africa for rubber plantations.

Goodyear Tire & Rubber . . . Plantations in Sumatra and elsewhere in threatened regions.

Gulf Oil . . . Owns a 50 per cent interest in oil concession on the Persian Gulf.

Newmont Mining . . . Interests in various South African mines.

Socony-Vacuum . . . One-half interest in Near East Development Corp., which shares in oil developments and exploration in Iraq.

Standard Oil of California . . . Large interests in Saudi Arabia, Bahrein Island on the Persian Gulf, Java and Sumatra.

Standard Oil (New Jersey) . . . Considerable acreage in Rumania, affiliates operating in Iraq and the Far East, pipe line in South Africa.

Texas Corp. . . . One-half interest in Bahrein Island development, and the same in Arabian concession.

U. S. Rubber . . . 132,000 acres of rubber plantations operated in Sumatra and Malaya.

New Tax Law Effects on Investors

Many Railroad, Public Utility and Steel Companies Affected Little or None

BY M. L. SEIDMAN, C. P. A.
Tax Consultant

SECURITY values rise or fall with earnings. And it is net earnings—after all taxes—that count. What interets the stockholder is how much is left of the earnings after Uncle Sam gets his cut. That's where the new excess profits tax may hurt. For, added to other federal taxes on corporate income, the combined effect at top rates runs up as high as 67 per cent.

What are excess profits? That is the first question Congress had to ask itself before it could tax them. Are they profits over a given norm? If so, then what are normal earnings for any particular corporation? If a rate of return on capital is to be the criterion, then what is that rate of return? And, indeed, what is invested capital itself, upon which a return is to be earned?

The mere mention of these imponderables should in itself go a long way to explain why there had to be so much wrangling over the provisions of this bill. The finished product gives every evidence that Congress tried very hard to reconcile the different points of view and to deal justly with the innumerable complications that are inherent in a law of this nature. But the result is, to say the least, a Frankenstein of tax legislation. It is without doubt one of the most intricate pieces of tax legislation that this or any other hard-working Congress has ever ground out of its legislative mill.

> **In Congress defenders of the new Federal tax law are apologetic rather than enthusiastic; and critics mince no words.**
>
> **Apology: "It was the best we could do under the circumstances."**
>
> **Criticism by Senator George, Democrat: "This arrangement of the excess profits upon a mere dollar bracket basis is one of the most unsound, one of the most inequitable and one of the most indefensible provisions that ever was written into a harsh bill such as the Excess-Profits Tax Bill, and it was done for the sole purpose of taxing bigness according to somebody's idea of bigness, without any possible consideration of how the burden falls upon the individual owner of a stock which must be made less valuable and less productive under such a crude arrangement as this."**
>
> **Outlook: A new and more thorough Federal tax revision next year, studies already being under way.**

One of the avowed purposes of this law as expressed by President Roosevelt in his original recommendations for its enactment was to provide against a new group of war millionaires. That's why Representative Treadway remarked upon the passage of the law: "Any man who says he can explain this bill exactly probably would become a millionaire overnight." He might have added, however, that such a person would not remain a millionaire very long. For the individual federal income tax on a million dollars is $717,583.60—and there is nearly always a stiff state income tax in addition.

But, stated in *general* terms, it is not very difficult to understand this new tax. To begin with, it applies against corporations only, not to individuals or partnerships. The average earnings of the four-year period, 1936-1939 was adopted as the yardstick with which to measure normal earnings. In the alternative, an invested capital method with an 8 per cent exemption is provided for. For good luck, there is also an increase in the normal tax; so that the thing now works out about as follows:

First, there is the regular income tax. Then, there is the old excess profits tax which is still in effect but now called the "declared-value excess-profits tax"; and, finally, there is this new excess profits tax. The regular income tax applies to all taxable income, whether "excess" or not. The rates, taking into consideration earlier increases this year, run from 14.85 per cent to 18.70 per cent for corporations whose income for the year is less than $25,000. When the income is over $25,000, the rate has now been increased to 24 per cent. The old excess profits tax ranges from 6.6 per cent to 13.2 per cent, depending on how high the earnings go over the value declared by the corporation for its capital stock. And, finally, there is now this new excess profits tax which ranges from 25 per cent to 50 per cent, depending upon the amount of excess earnings.

The new tax is effective with the calendar year 1940, or the fiscal year beginning in 1940 for those corporations not filing on a calendar year basis. In figuring the tax, a corporation may select the more favorable of the two ways for determining it. If the 1936-1939 earning basis

is used, then 95 per cent of the average profits of that period is treated as normal earnings, hence not subject to excess profits tax. Profits above that are taxed. The alternative method makes capital investment the controlling thing, and exempts an amount equal to 8 per cent of the capital. Under both methods, there is a flat additional exemption of $5,000.

Provision for New Ventures

Corporations that first get started in 1940 can use only the capital investment method. A special computation applies to those that got started between 1936 and 1940. Corporations and their 95 per cent owned subsidiaries can, at their option, file consolidated returns.

Under the earnings methods, if instead of profits in 1936-1939 there were losses in any of the years, the results of the best three years, divided by four are regarded as the average. In other words, one loss year, but only one, is figured as zero instead of as a negative quantity. While with the earnings method, the dominant factor is the amount of profits, capital investment also plays a part, in that a net increase in the investment during the year adds to the exemption by an amount equal to 8 per cent of the additional capital. A net decrease in the capital investment reduces the exemption by only 6 per cent of such decrease.

Capital investment is of two kinds—equity capital and borrowed capital. All of the equity capital, but only one-half of the borrowed capital is considered as the capital investment for the purpose of this tax. The equity capital is determined primarily by the amount of cash and property paid into the corporation, plus accumulated earnings and profits. Borrowed capital is the amount represented by any written promise to pay. It thus includes not only bonded debt, but also mortgages, bank loans, trade debts, officers' credit balances and other debts as evidenced by written instrument.

Although initiated because of our defense program, the tax is not limited to profits arising from participation in that program. Nor does it apply merely because a company makes such profits. Furthermore, the profits on which this tax is calculated may be altogether different from what constitutes taxable income for regular income tax purposes. One of the most important differences is that in determining excess profits, capital gains and losses, that is, gains or losses on the sale of securities or other capital assets held over eighteen months, are entirely disregarded. Also, the regular income tax is treated as a deduction.

Dividends received by the corporation are not taxable at all, although 15 per cent of such amount is subject to the regular income tax. Since under the invested capital method, one-half the borrowed capital is treated as part of the capital, one-half the interest paid on such capital is eliminated from the income deductions. All these adjustments apply both currently and to the earnings of 1936-1939.

It is specifically provided that in the 1936-1939 years, no deduction need be made for losses from fire, theft, storm, or demolition or abandonment of property, or for A A A taxes repaid to customers, or for abnormal claims or judgments paid by the corporation, even though those items were allowed as deductions for income tax purposes. That, of course, is all to the good since it increases the income used as an excess profits tax credit for subsequent years.

Corporation Income Tax Rates—1940

Regular Income Tax

Income under $25,000:	Tax Rate
First $5,000	14.85%
Next $15,000	16.50%
Next $5,000	18.70%
Income Over $25,000	24.00%

Declared Value Excess Profits Tax

On the income greater than 10% but less than 15% of declared value of capital stock	6.6%
On the income greater than 15% of declared value of capital stock	13.2%

Excess Profits Tax

Excess profits:	
First $20,000	25%
Next $30,000	30%
Next $50,000	35%
Next $150,000	40%
Next $250,000	45%
Over $500,000	50%

The idea behind these adjustments is to apply the tax only to the regular recurring business income unaffected by outside windfalls or losses. Toward this end, provision is also made for cases where there is received in the current year income that is unusual in character or in amount, and is really applicable to past or future years. Income from long term contracts, or from research and patent work going back for more than a year, or realization on claims, or the result of changes in accounting method would fall in that class. In all such cases, the abnormal amount is taken out of the current income and thrown back or carried forward to the years to which they apply. Provision is also made for other abnormalities in income or capital investment.

Specific provision is made for amortization of defense facilities, at the taxpayer's option, over a period of five years. The deduction is applicable not only for excess profits tax purposes, but for the regular corporate income tax as well. These facilities include land, buildings, machinery, equipment, etc., completed or acquired after June 10, 1940, providing a certificate from the proper government authorities has been obtained, certifying them as defense facilities.

Personal service corporations can be exempted from the excess profits tax, in which event, the shareholders are taxed for their pro-rata share of the corporate income. Generally speaking, a personal service corporation is one in which capital is not a material income producing factor, and where its income can be ascribed primarily to the activities of its stockholders owning, in value, at least 70 per cent of its stock. Brokerage, advertising, and engineering corporations are typical of those which can qualify for personal service corporation classification.

Among other companies exempt from the excess profits tax are foreign and domestic personal holding companies, certain mutual investment (*Please turn to page* 56)

Drastically changed conditions call for a flexible investment approach and new concepts in appraising various types of securities.

What Value Common Stocks?

BY J. S. WILLIAMS

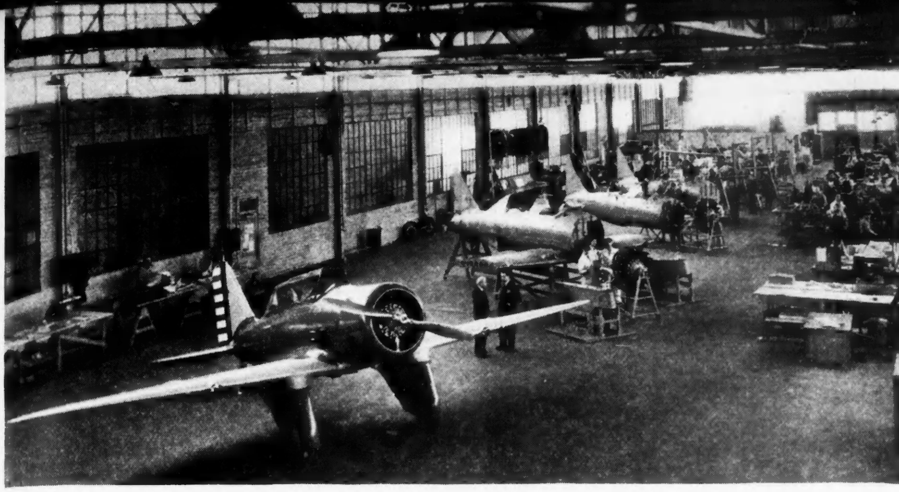
On September 1, 1939, Hitler's armies invaded Poland; the next day France and England declared war on Germany. With these two world shattering events, war became the dominating force in all investment undertakings. Normal investment concepts became at once subject to drastic modification and relegated to a background of relative insignificance. If this was not immediately apparent to the investor some thirteen months ago, certainly interim events must have impressed it upon him. To name a few of the more outstanding of these events—the short-lived stock market boom following the outbreak of the war; the sharp break in stock prices in May and June of this year; the bond market suffered two sharp breaks, one in August, 1939, and the other in May of this year, both of which were followed by a price recovery move which regained virtually all of the ground lost; our Government has embarked on a record-breaking peace time defense program, by contrast with which previous pump-priming efforts will seem puny; and two tax bills have been enacted this year, which will make a sizable dent in the earnings of many corporations. Finally, of course, the eventual involvement of the United States in the war must be reckoned with.

To evaluate these events and their effect upon investments, because of the conflicting factors and issues which are involved, incurs a considerable risk of error in judgment and timing. Investment opinion, as measured by the course of security prices over the past year, has vacillated sharply and today appears to be extremely cautious and without conviction—and justly so. To ac-

How Excess Profits Tax Will Affect Heavy Industries

Company	Average Earnings Per Share 1936-39	% Return on Equity Capital 1939	Earned Per Share 1939	Excess Profits Above This Point*	Earned Per Share 1st 6 mos. 1940	Estimated 1940 Earnings (A)	Dividends (b)	Recent Price
U. S. Steel	$3.19	3.1	$1.83	$10.00	$2.72	$8.00	$2.00	60
Bethlehem Steel	3.87	5.1	5.75	12.50	6.10	13.00	3.50	81
Westinghouse Elec. & Mfg.	5.44	7.0	5.24	6.00	3.68	7.00	2.75	106
General Electric	1.53	13.0	1.43	1.50	0.90	2.00	1.05	34
Johns-Manville	4.07	8.6	4.28	3.90	1.92	5.50	1.50	68
U. S. Gypsum	4.31	12.3	5.71	4.10	2.73	6.00	2.00	76
Monsanto Chemical	3.69	11.7	4.01	3.50	2.24	5.50	1.50	92
Union Carbide	3.88	13.0	3.86	3.70	2.15	5.00	2.30	74
International Harvester	4.18	39.1	1.71	4.85	....	3.00	1.60	47
Caterpillar Tractor	3.70	15.3	2.89	3.50	1.86	4.00	1.50	49
General Motors	3.92	18.3	4.06	3.70	2.52	4.50	2.75	49
Chrysler	9.67	23.0	8.47	9.20	7.01	12.00	3.75	80
Timken Roller Bearing	2.98	17.7	3.02	2.85	2.07	4.50	2.00	48
Sperry Corp.	2.00	39.7	2.71	1.90	2.00	4.25	1.00	41
Glenn L. Martin	2.02	22.9	3.75	1.90	3.92	8.50	1.00	32
United Aircraft	1.97	28.7	3.53	1.90	2.34	5.50	1.50	38
Douglas Aircraft	3.07	20.9	4.81	2.90	5.65	10.00	....	77
Allis Chalmers	2.55	6.4	2.09	3.60	1.47	3.25	1.00	33
Crane	1.82	5.2	1.57	2.85	2.02 (d)	2.50	....	20
Underwood Elliott Fisher	4.17	8.5	2.53	3.95	1.46	3.00	1.50	33
Goodyear	2.52	8.2	3.20	2.40	1.23	2.00	1.00	15
Phelps Dodge	2.22	7.5	2.42	2.60	1.14	2.50	0.75	31
Amer. Smelting & Ref.	5.25	11.1	4.36	5.00	2.12	3.25	2.00	40
St. Joseph Lead	2.08	17.9	2.71	1.95	1.32	2.50	1.25	36
Bendix Aviation	0.75	15.5	2.14	1.15	2.05	5.00	1.75	31
Thompson Products	2.69	20.7	3.90	2.55	5.40 (c)	6.00	1.25	33
Borg Warner	2.41	14.3	2.43	2.30	1.21	2.50	0.75	18
Timken Detroit Axle	1.77	13.8	2.62	1.70	3.69 (d)	....	2.25	29

*—$ per share estimated other than exact and is presented as a convenient yardstick. A—Before excess profits taxes. (d)—12 mos. to June 30. (B)—Paid or declared this year. (c)—12 mos. to July 31.



The new and dynamic among today's industries pull investment capital with promises of rapid growth. Risks and penalties for excessive daring exist as they always have, but the rewards cannot be ignored. The investor must either be forced completely on the defensive or attempt to take chances intelligently and with flexible judgment.

Atlas Photo

cept this realistic viewpoint, however, does not mean that investors are without the means to safeguard their interests and protect their capital. It is simply being forewarned and forearmed.

From the welter of confusion, uncertainty and cross-currents which have followed in the wake of the war, there have now emerged a number of bases which lend rather conclusive support to certain courses of investment action.

Regardless of the objectives sought through the means of a specific investment program, the first requisite is flexibility. An investor may believe that he is making ample provision for flexibility by diversifying his funds between various classes of securities, industries and companies. Of greater importance, and this is not only true in a war setting but at any time, is flexibility of judgment and opinion and the willingness to avoid hard and fast convictions once any doubt has been cast upon their merits. Any investment program worthy of the name should represent a reasonable compromise between judgment and the possible contingencies which might upset such judgment.

Under present circumstances, the ideal method to assure adequate flexibility is the maintenance of some part of the capital fund in cash. The proportion of cash to the total fund will necessarily vary, depending upon the investment objectives sought—larger in the case of capital appreciation funds, smaller if necessary in funds required to yield a certain income. Regardless, however, it can be set down as General Rule Number One: Retain an un-

How Excess Profits Will Affect Consumer Industries

Company	Average Earnings Per Share 1936-39	% Return on Equity Capital 1939	Earned Per Share 1939	Excess Profits Above This Point *	Earned Per Share 1st 6 mos. 1940	Estimated 1940 Earnings (A)	Dividends (b)	Recent Price
Standard Oil of N. J.	$3.87	7.2	$3.27	$4.50	$3.00(e)	$4.25	$1.50	32
Texas Corp.	3.56	7.0	3.02	4.10	2.40	3.75	2.00	34
Phillips Petroleum	3.42	5.8	2.21	4.70	1.43	2.50	2.00	35
Reynolds Tobacco "B"	2.65	17.7	2.56	2.50	NF	2.50	2.00	35
American Tobacco "B"	4.69	16.2	5.12	4.45	NF	5.50	5.00	75
Liggett & Myers Tobacco "B"	6.46	14.0	6.13	6.15	NF	6.25	5.00	100
National Dairy Products	1.80	14.6	1.97	1.70	0.76	1.70	0.80	13
Borden	1.64	7.7	1.81	1.70	0.75	1.75	1.20	19
Procter & Gamble	3.14	21.2	3.79	2.95	4.37 (d)	4.25	3.00	63
Colgate-Palmolive-Peet	1.36	12.7	2.74	1.30	0.45	1.20	0.50	11
National Biscuit	1.70	10.9	1.62	1.60	0.69	1.60	1.60	19
General Foods	2.43	19.0	2.75	2.30	1.34	2.60	2.00	41
American Chicle	7.87	18.8	8.79	7.50	4.36	8.50	5.25	124
General Mills	4.93	11.8	7.69	4.70	6.64 (c)	6.50	4.25	90
United Fruit	4.34	8.8	4.87	4.10	3.24	4.75	4.00	70
Corn Products Ref.	3.22	9.7	3.32	3.05	1.40	3.00	3.00	50
Continental Can	2.78	7.4	2.71	3.10	2.80 (d)	3.00	2.00	38
American Can	5.61	11.9	6.22	5.35	NF	6.50	4.00	95
Safeway Stores	4.32	12.3	6.61	4.10	2.35	6.50	3.00	42
Kroger Grocery	2.14	12.3	3.01	2.05	1.27	3.00	2.50	31
Sears, Roebuck	5.49	14.2	4.18	5.20	2.67	6.50	5.00	80
Montgomery Ward	3.86	12.9	3.50	3.65	1.83	5.00	4.00	40
J. C. Penney	6.44	22.0	6.48	6.12	2.42	6.50	5.00	90
Woolworth	3.19	13.6	3.02	3.05	NF	2.50	2.40	34
S. H. Kress	1.98	7.0	1.93	2.25	1.27	1.75	1.60	25

(b)—Indicated Annual Rate. (c)—12 months to May 31. (d)—12 months to June 30.*—$ per share estimated rather than exact and is presented as a convenient yardstick. (e)—Estimated. (A)—Before excess profits taxes. NF—Not available.

invested backlog of cash or its equivalent. This assures the investor of protection against emergencies arising from market breaks, income deficiency or an unforeseen need for extra funds. These emergencies have an unfortunate habit of putting in an appearance at a time when the forced liquidation of securities may mean the acceptance of a severe and perhaps unwarranted loss. Debit balances and bank loans for the purpose of carrying or purchasing securities should be avoided.

The logical complement to cash as a factor of flexibility is a rearrangement of portfolios to provide the proper balance between various types of securities. The abnormalities which have resulted or are likely to result from the war may alter greatly the relative investment values of bonds, preferred stocks and common stocks. The same will be true of industries and companies. To recognize the various probabilities in this direction and with view to either capitalizing them or safeguarding investment capital against them, an investor now should re-examine his holdings and strengthen the weak spots. This is what is meant by investment flexibility.

What now seems to be a reasonable and sensible course in the treatment of various types and issues of securities, can, of course be based upon the events and experience of the past year. The events and experience of the next twelve months may introduce an entirely new set of factors for which full allowance can obviously not be made at this time. The important point, however, is to recognize the situation as it exists at the present time and act accordingly. The fact that it may, and probably will be, different a year hence is no reason for "sitting tight" now.

Selected Investment Suggestions

Second Grade Bonds

Issue	Recent Price	Current Yield
General Steel Castings 5½'s 1949	85	6.47
Certain-teed Products 5½'s 1948	81	6.79
Studebaker Corp. Conv. 6's 1945	101	5.94
Pressed Steel Car 5's 1951	93	5.38
Southern Railway Gen. 4's 1956	58	6.9
Pere Marquette 4½'s 1980	64	7.03
N. Y. Chicago & St. Louis 5½'s 1974	71	7.75
New York Central Ref. 4½s 2013	58	7.76

Speculative Preferred Stocks

Issue	Recent Price	Current Yield
Wilson & Co. $6 (Accumulated Divs. $7.50)	60	10.0
Budd Mfg. 7% (Accumulated Divs. $70)	56	....
Int'l Paper & Power 5% (Accumulated Divs. $12.50)	59	8.5
Worthington Pump & Mach. Cv. Prior (Accumulated Divs. 7.87½)	57	*
American Car & Foundry 6%	53	....
Sharon Steel 5%	61	8.20

*Paid $1.12½ 9/15/40.

Common Stocks for Income

Issue	Recent Price	Current Yield
Commonwealth Edison $1.80	30	6.0
Bristol-Myers $2.40	44	5.5
May Department Stores $3	50	6.0
General Foods $2	40	5.0
United Fruit $4	70	5.7
American Can $4	96	4.1

Common Stocks for Speculation

Issue	Recent Price	Current Yield
United Air Lines	17	....
Great No. Rwy	27	....
New York Central	14	....
U. S. Steel $2 (a)	58	....
Allis-Chalmers $1 (a)	33	....
Amer. Car & Foundry	27	....

(a) Paid this year.

The case against high grade bonds is predicated upon two premises, (1) war is inflationary as regards the price structure and deflationary as regards fixed income securities and, (2) high grade bond prices are virtually at their all time high and therefore highly vulnerable to any bad news.

So far as the inflationary impetus of war is concerned, the argument leans heavily upon the precedent of the World War. The same conditions, however, do not exist today. Vested with vast powers and controls applicable to the bond market, and confronted with the necessity of financing a huge defense program, it is certain that the Government is vitally interested in maintaining an indefinite period of low interest rates and high bond prices, and would not hesitate to use these controls. The two sharp declines in bond prices over the past year were short lived and the subsequent recovery required little assistance on the part of the Government. The Government likewise will exercise strict controls over the wholesale price structure and it is extremely unlikely, even in the event of our ultimate entrance into the war, that prices will experience the rise of 150 per cent which they showed at the top of the World War inflation spiral. Concluding a discussion, "No War Inflation . . . Why?" (Magazine of Wall Street, Sept. 7, 1940), Norman T. Carruthers stated, that "the threat of price inflation and high grade bond market deflation in the United States can be safely put out of mind as the *guiding or dominant consideration in formulating investment and speculative programs*" at the present time.

Bond prices, at record highs, have already demonstrated their vulnerability to bad news, but they have likewise demonstrated vigorous recuperative powers. With interest rates likely to be little affected by commercial borrowing, even under the impetus of defense orders, bond prices for some time to come are likely to fluctuate in response to psychological factors rather than fundamental developments, perhaps somewhat under the peak levels.

The average high grade bond has scant appeal from an income standpoint for the individual investor forced to compete with institutional demand. The superior rating of high grade bonds is a consideration only where theoretical 100 per cent safety is sought.

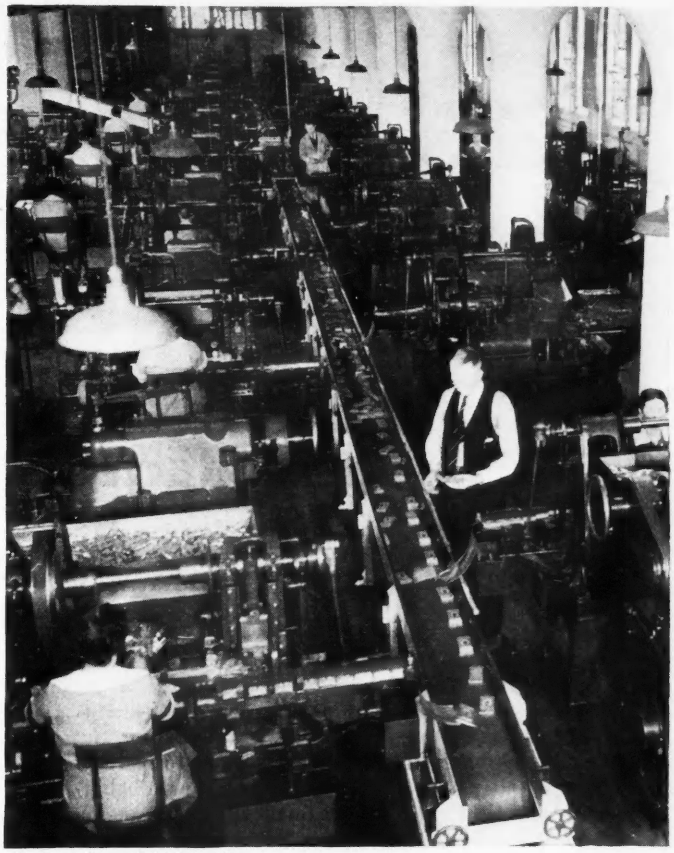
Many medium grade bonds, favored by improved interest coverage and public demand have risen in price to a point where they are selling virtually on a "money" basis and the distinction, at least marketwise, between them and high grade bonds is almost imperceptible. Many of these bonds may be refunded over the coming months and the choice of issues available to individual investors has steadily decreased as more and more medium grade bonds sold above their call price. Other things being equal, the loss of several points price premium is the principal investment deterrent in most medium grade bonds.

Selected second grade and speculative bonds, on the other hand, would appear to have much to gain both in quality and value over the coming months. Included in this group are numerous issues of companies whose record of earnings under more normal conditions has been rather indifferent, but which with the aid of defense stimulus may show considerable improvement. Moreover, bond interest is a prior charge against income ahead of both normal and excess profits taxes. This means that holders

of second grade bonds can anticipate generally a strengthening in both the quality and value of such issues, and which will not be dissipated when the Government presents its tax bill.

The railroad group offers the largest choice of second grade bonds. Industrial carriers particularly promise to derive substantial benefits through the defense program. In not a few instances the effects are already apparent in the revenues and income of carriers operating in the important industrial areas of the country. This betterment should be cumulative in the months ahead. Another factor favoring more speculative rail bonds is the evidence of increasing cooperation between the I. C. C. and the Federal Courts seeking to speed up reorganization of bankrupt carriers.

Marketwise, in the past, second grade and speculative bonds, as well as speculative preferred stocks, have plotted a course roughly parallel to that of common stocks. As the situation shapes up at the present time, however, there appears to be a strong likelihood that this pattern may be changed in favor of speculative bonds, and perhaps to a lesser degree in favor of preferred stocks. The fact that common stocks are unlikely to capitalize war-time earnings at anything approaching the normal ratios, coupled with their vulnerability to higher taxes, will place a powerful restraint upon them marketwise. This restraint, however, will not be nearly as effective in the case of speculative bonds and preferred stocks In short it would be possible for the latter groups to register important price appreciation, while common stocks as a whole remained comparatively static.



Courtesy Reynolds Tobacco Co.

Static industries depending upon large and steady volume offer greatest stability, yet face injury at the hands of the tax-collector.

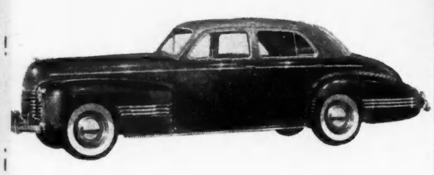
There appears to be a growing belief that common stock earnings will bear the brunt of the recently enacted excess profits taxes and that preferred stocks will be comparatively immune. This is only partly true. It is net income, or earnings available for *both* preferred and common dividends, which will be subject to excess profits taxes.

The Status of Preferred Stocks

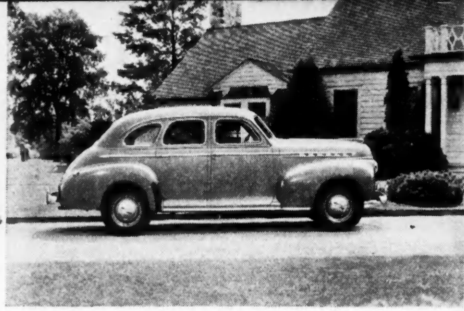
The effect upon high grade preferred stocks will probably be slight. Companies which characteristically display a high measure of stability in earnings may report a decline in earnings available for preferred dividends, owing to increased taxes, but where normal coverage is high, and the preferred issue commands a gilt-edge rating, its status will be little changed This type of preferred stock in a large measure tends to move with the high grade bond market And like high grade bonds the yield is low.

Among second grade preferred stocks the most promising speculative issues are likely to be found among those which carry arrears in unpaid dividends. Many of these are issues of companies identified with highly cyclical industries, but which now will derive considerable impetus from defense orders. With a prior claim on earnings, to the extent of both unpaid and regular dividends, this class of preferred stock is a relatively better vehicle for participating in the company's fortunes than the common stock. If such proves to be the case, it will be another instance where the normal pattern may be distorted by factors now effective. In the past, more often than not, the common stock of the same company has been a more profitable speculative medium, than the preferred issue with accumulated dividends. Many of these preferred issues, however, have recently enjoyed a very substantial rise and the choice of mediums for new commitments has been correspondingly restricted. The excess profits tax is a cogent reason for caution and discrimination in the selection of speculative preferred stocks, particularly issues with large arrears. The tax may force directors to act much more conservatively in the matter of clearing up back dividends than might otherwise be indicated by the trend of earnings over the coming months. A fairly good reaction in the market, as a whole, would enhance the opportunities for the profitable selection of speculative preferreds.

In the present war and defense economy, the common stock investor has two alternatives. He can conclude that, regardless of the grave potentialities with which the outlook is fraught, in the end he will be as well off holding good common stocks as any other class of security or investment. Otherwise, he may feel that the risks and uncertainties are too great and convert all of his common stock investments into cash. The decision in a large measure will probably be influ- (*Please turn to page 56*)



Pontiac



Chevrolet

Oldsmobile

What Can We Expect of the Motor Industry?

BY WARD GATES

NORMALLY producing a greater dollar value of manufactures than any other industry, the outlook for the key automobile industry today is subject to various abnormal influences, to a balance of favorable probabilities at least over the limited distance that one can see ahead in the present topsy-turvy world and to unpredictable war contingencies which *possibly* could be unfavorable.

The industry's own guess—and it is betting heavily on it—is that the new model year will be a good one. At this writing it is rapidly nearing a production rate which is virtually certain to break all fourth quarter records. Output of cars and trucks for the period should approximate 1,300,000 units at a minimum and may readily exceed still further the 1939 final quarter volume of 1,161,000 units.

The optimism of the industry is not always justified by future events. For instance, it badly over-produced in the fourth quarter of 1937. On the other hand, in the closing months of last year and the early months of this it built up an all-time record high inventory of new passenger cars in dealers' hands and proved to be entirely correct in its expectations. Favorable retail sales through the summer permitted it to jump more rapidly than usually into active new model production, with inventory of 1940 models cleaned out and the used-car situation healthy.

Under prevailing conditions rapid building up of large dealer stocks appears to be no gamble but a prudent policy. Only a sudden termination of the war under conditions which would suggest drastic scaling down of our projected armament program could bring any major downturn in general economic activity. Since this contingency seems almost fantastically improbable, there will be plenty of time in the first half of 1941 to adjust production to the retail sales factor, whether up or down.

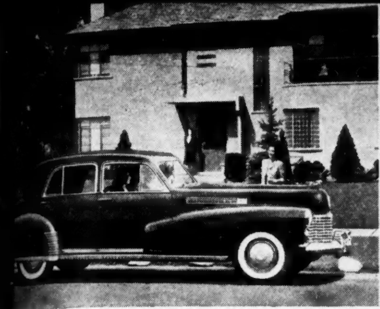
It may well be that national defense requirements during the next twelve months will not at any time significantly hamper automobile production. It may be that the industry can get all the steel and other materials it needs, even after defense has had first call. It may be that it will run into neither labor troubles nor labor shortages. But none of this can be taken for granted. So cars are being turned out with a rush both because demand is expected to be at a boom level and because stocks now built up will come in handy if production troubles *should* develop later on.

The basis for a strong public demand for automobiles, and for all consumer goods, is obvious. The direct and indirect stimulus flowing from the armament program and British war orders is lifting the national income at the most dynamic rate since the great boom of the '20's. During the first eight months of this year total income payments to individuals were $2,400,000 greater than in the corresponding period last year, a gain of 5.3 per cent. The 1940 national income will approximate $74,500,000,000 and fourth quarter national income will be equivalent to a rate of probably $78,000,000,000 a year or more.

Public Purchasing Power

No significant rise in living costs is likely and the purchasing power of current monthly national income is in excess of that of 1929. It is the sharply rising marginal income—the income above what is needed for a necessitous living standard—which has dynamic effect upon automobile demand. Among optional demands, a new automobile continues to rank very high in consumer preference regardless of how many cars are on the road.

There has been a gain of more than 1,200,000 in employment since the war began and the rate of increase



Cadillac Sixty Special

Cadillac Sixty-Three

Buick

is now accelerating as capacity of machines and labor is approached. There is a boom in demand for skilled and semi-skilled workers, an increase in the average work week in many industries up to the legal limit whereas previously in many cases the total hours per week had been below the maximum; and, finally, premium overtime wages represent a windfall to many thousands of workers.

Although nothing like a statistical estimate of 1941 automobile sales is possible from this distance, considering the general armament-economy background and assuming it will not be radically altered, it would certainly not be surprising if 1941 proved to be a 5,000,000-unit year for the motor industry, about the same as 1937 and comparing with estimated factory sales (United States and Canada) of approximately 4,500,000 units this year.

The opposing arguments are, of course, worthy of careful attention. First, exports of motor vehicles, as well as American-owned foreign production, are radically curtailed. For instance, in the last good year of foreign demand—1937—unit exports from the United States were approximately 395,000. This year, judging by recent export trends, the total will probably be some 50 per cent lower and most likely a bit under 200,000 units.

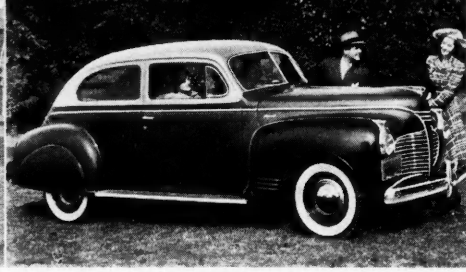
This difference, while important, must be examined in relation to a 4,500,000-unit year this year and a probable figure above 5,000,000 next year. So examined, it can detract but modestly from the dynamic domestic picture.

Second, it can be contended that the industry is nearing the end of the second good year in a row. This is the two-year cycle theory, which holds that after two years of large motor sales the third year—1941 in this instance—is usually less good and often quite bad. The statistical record, however, does not give convincing support to this concept. A chart of passenger car production placed along the graph of total industrial activity will show a very close correspondence in fluctuations—the reasons being obvious—and the chief difference being that in periods of deflation motor production tends to drop further below the general industrial line than it rises above it in periods of boom.

Taken by itself, a long term motor production chart will show instances where the two-year cycle theory seemed to hold true, but when related to similar movement of the Reserve Board index of industrial production it will be seen that there is a large element of coincidence in the alleged cycle. About the most that can be said is that two or more years of heavy sales, increasing both the number of cars in use and the ratio of good-condition cars to the total in use, tends to accelerate shrinkage of the car market in periods of declining public purchasing power. On the other hand, this factor does not preclude continued expansion of the demand when marginal public income is rising, as is the case now. Moreover, 1939—with output of 3,732,000 units—was not a boom year by any means although a fair year. Hence, allowing for the exceptionally strong purchasing power factor, even believers in the two-year automobile cycle would probably concede that it is valid to apply the theory to 1940-1941 rather than to 1939-1940.

Third, it can be argued that after the election and probably within the first quarter of 1941, Federal taxes will be further raised and that the boost may be sharp enough to cut into marginal purchasing power and thus reduce demand for non-essential goods. This remains to be seen and is certainly a possibility. If we should get into the war it would have to be considered a virtual certainty. Otherwise the answer will depend upon the actual scope of the tax rise, if it comes, and the degree by which the general income-inflation is counteracted by this particular measure of income-deflation. Therefore, on this question no forecast whatever is possible. The contingency will have to be watched and, if it comes to pass, evaluated at the time. It could, of course, modify substantially the more optimistic possibilities

Plymouth



De Soto

Nash

of 1941 automobile sales cited earlier in this article.

Fourth, men drafted into the army will cease to be potential buyers of cars, new or used, and some draftees will sell their present cars. As far as it goes, this will unquestionably be on the adverse side for the motor industry but, in the writer's opinion, this factor—like the export loss—can have but relatively moderate weight against the far more powerful stimulating forces we have heretofore cited.

So much for the influences bearing favorably or unfavorably on the sales outlook.

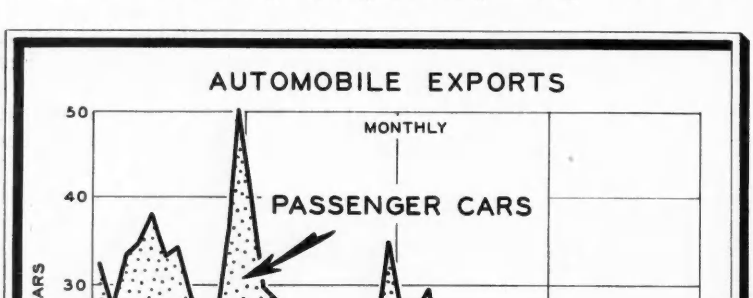
The impact—direct and indirect—of the armament program upon the operating side of the industry is a matter of major importance and in considering this we are up against some notable blindspots. Much will depend upon the course of the war, this in turn influencing the urgency—if not the scope—of the armament effort and the methods followed by the Government in furthering the program.

Generally speaking the present approach is to seek to superimpose the armament activity on top of the maximum possible volume of civilian activity—at least until the remaining large unemployment slack is taken up—and to do so with a minimum of compulsion. As a matter of fact, we do not have any wide latitude of choice on this question at the present time. That is to say, in any event, the great bulk of the armaments will have to come from newly-built, specialized producing facilities. Existing automotive plants, for example, cannot turn out airplanes, aircraft engines, tanks or artillery. Hence these facilities cannot be "diverted" to armament work.

On the other hand, there can be no question but that the general direction in which we are moving is toward increasing Federal controls. The movement will be accelerated after the election, whoever wins. It would be further and probably immediately accelerated if the war took a turn disastrous to the British. So we must allow for the possibility of some kind of a squeeze affecting the motor industry before this thing is over, perhaps developing to some degree within 1941.

If we found ourselves on the spot in a hostile world we would quickly forget about the social objective of solving the unemployment problem. National defense would have first and compulsory call on all means of production that could be effectively used, including equipment, management, materials and labor. In such a situation diversion of automotive labor and materials—rather than machine equipment—would be the central squeeze on production of passenger cars.

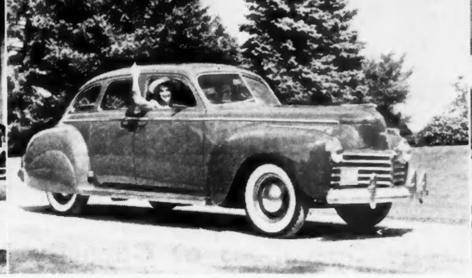
There has been some talk of freezing the 1941 models for an indefinite time, eliminating re-tooling activities next summer in planning 1942 cars. The notion rests on the theory that all tool-making capacity will have to be preempted for armament needs. It could, of course, work out this way but it can hardly be considered inevitable.



If the Axis powers have not succeeded in bringing England to her knees by next spring, their chance of ever doing so will certainly have receded considerably and in that case the pressure upon us for maximum speed in armament production could be less rather than more.

Meanwhile the automobile industry, including accessory manufacturers, is steadily becoming more of an adjunct to the defense effort. To the extent that existing equipment can make, or be adapted to making, armament parts, much work is being done and more will be done. There is no automotive company that can fail to get some of it. The larger companies—General Motors, Chrysler, Packard, Ford—either have large orders for a variety of defense products or can count with certainty on getting them. The bulk of this production requires new plant construction and installation of specialized machinery.

Studebaker



Chrysler

Dodge

How much money the industry may make on its armament work, as compared with its civilian output—assuming the latter will continue through the coming year without major squeeze—is another matter. The factors involved here are so conjectural that not even a guess is worth attempting.

Outlook for Motor Securities

The long growth trend of demand for passenger automobiles—most pronounced in the decade following the World War—has flattened out, if not terminated, although there is evidence that it is a continuing factor in demand for trucks and buses. For practical purposes, however, this question has no worthwhile bearing upon an investment or speculative appraisal of automotive securities. They are inherently subject to a very marked cyclical fluctuation in volume, earnings and dividends.

Among the automobile makers there are only two listed equities that can be regarded as having even semi-investment attributes—General Motors and Chrysler. Normally these issues are excellently suited to the requirements of speculative-investors or traders who seek the double objective of cyclical appreciation potentiality and income return. The swings are not as wide as in such utter Prince-and-Pauper equities as heavy steels or rail equipments; the dividends are never as secure as in various stable-earning or storm-cellar equities—but what is offered is a middle-of-the-road compromise. The percentage fluctuations in Chrysler are characteristically broader than in General Motors. For instance, decline in Chrysler from the January high to the early summer low was 43 per cent and subsequent maximum rally to date has been 53 per cent, the comparable figures for General Motors on the same swings being 34 per cent down and 35 per cent up.

The slower changes in value of General Motors reflect in part a very large share capitalization; and the prestige of the enterprise—far bigger than Chrysler and entrenched in secure trade position over a longer period of time than any other in the business—is reflected in a higher price-earnings ratio for the stock, and usually in a smaller dividend yield, than in the case of Chrysler.

A brief look at the record over the five years 1935-1939 is worth while. This was a period without wild boom or extreme depression, the Reserve Board index of industrial production averaging for the composite period 99 per cent of the 1923-1925 level. Chrysler over these years earned an average of $9.36 per share; General Motors, $3.93 per share. Chrysler dividends averaged $6.20 or just double General Motors' average of $3.10.

At present prices Chrysler sell for approximately 8.5 times the average earning power of 1935-1939 and the five-year average dividend applied to present price would represent a yield of about 7.7 per cent. On the same basis for General Motors we get a price-earning ratio of 12.8 and yield of 6.2 per cent.

The complicated Federal tax law recently adopted, plus unpredictable year-end accounting adjustments, makes forecast of probable 1940 earnings for these two companies abnormally hazardous. Nevertheless the writer ventures the estimate that Chrysler will probably earn between $10 and $11 a share, and General Motors between $4.10 and $4.30. If we take the half-way mark between these estimates—$10.50 for Chrysler and $4.20 for General Motors, the former is now priced at approximately 7.6 times 1940 net per share, the latter at approximately 8.4 times indicated net per share.

Dividend payments are even (*Please turn to page 58*)

The end of Ford's assembly line at the River Rouge plant. Passenger cars come off one side, trucks and commercial cars the other.

Diversification Helps Anaconda

Domestic Operations at Capacity Levels Will Partly Offset Foreign Conditions

By J. C. CLIFFORD

Although Anaconda Copper Mining Co. has a wide diversification of interests extending from lumber and railways through precious metal mining and smelting to copper fabricating the company's greatest concern is the copper metal itself. Anaconda is the world's largest producer, although by far the bulk of production capacity is outside the territorial limits of the United States. Domestic copper production capacity is large—200,417,863 pounds in 1939—but foreign copper output is more than double that amount and comes mostly from what is rated to be the largest single copper mine in the world.

Until the fall of France the outlook for foreign copper was good, for not only were the Allies unable fully to supply their copper needs from their own sources but France, believing that moderate takings from other sources would hold open supplies should Allied-owned mines ever be blockaded, purchased quantities of copper from South American mines and lesser quantities from this country. Then too, certain non-belligerents such as Italy and Spain purchased large amounts of copper not only for their own use but also for later shipment to Germany. The elimination of France and the entry of the Italians into active participation in the war stopped all shipments of South American copper to Europe and left South American copper producers to find whatever market they could for their metal.

The South American copper situation is further complicated by the growing trend toward nationalization of natural resources by certain of the South American governments. In order to offset any possible reason which would permit the various governments to expropriate the mines, South American copper producers have been forced to keep production at high levels. While this measure has prevented any strong moves to reclaim the mines on the part of the various governments it has resulted in the building up of large quantities of copper that are barred from the American markets through the 4 cents a pound tariff imposed upon imported copper.

The expense of mining metal which is not immediately saleable has resulted in a loss from operations that is not being wholly offset by the active demand for American copper in this country. These added expenses will probably take an increasing toll of earnings in the last half of this year with the result that Anaconda will do well if it is able to report second half earnings equal to those of the first half, despite the fact that domestic business is excellent. The adverse effects of the foreign situation are not to be regarded as permanent. The U. S. Government recognizes the seriousness of the foreign copper mining position and has recently recommended that a certain amount of copper from Chile be admitted to this country in furtherance of the "good neighbor" policy. Later, such official blessing will not be needed, for at the present rate of gain in domestic copper consumption it will not be long before American copper producing facilities will be taxed to their limits so that it will be necessary to supplement domestic supplies with shipments of foreign copper.

Not only does Anaconda own the largest copper mines in the world but they are also among the lowest cost producers. In case of the Chilean mines, the richness of the

Anaconda's Activities in 1939

Metal Production

	Copper Lbs.	Silver Ozs.	Gold Ozs.	Zinc Lbs.	Lead Lbs.
Anaconda Cop. Mng. Co.	200,417,863	6,014,323	9,285	22,077,858	11,186,545
Andes Copper Mng. Co.	121,542,448	295,246	15,903	....	....
Chile Copper Co	307,161,079	....	....	....	....
Greene Cananea	52,291,029	550,569	15,287	....	....
Total	681,412,419	6,860,138	40,475	22,077,858	11,186,545

Metal Smelted and Refined

	Copper Lbs.	Silver Ozs.	Gold Ozs.	Zinc Lbs.	Lead Lbs.
Treated on toll	203,216,783	866,480	40,432	....	....
From purchased ores	49,783,474	6,855,912	165,086	201,978,992	79,476,853
From owned mines	681,412,419	6,860,138	40,475	22,077,858	11,186,545
Total	934,412,676	14,582,530	245,993	224,056,850	90,663,398

Metal Sales

	Copper Lbs.	Silver Ozs.	Gold Ozs.	Zinc Lbs.	Lead Lbs.
Total	883,235,702	14,582,530	245,993	201,127,612	83,577,841

Miscellaneous

Lumber	89,775,271 board feet	Cadmium	986,304 pounds
Phosphates	57,205 tons	Molybdenite	989 tons
Arsenic	8,709 tons	Fabricated products	612,031,416 pounds

ores in copper offsets their lack of precious metals which is a substantial contributor to the low cost of producing Mexican copper. In both cases, production costs are sufficiently low to permit competition in the future with domestically mined copper at current prices even after hurdling the tariff barrier. As was the case with sugar last year, the Government will probably lower the tariff barrier on copper should domestic prices get out of hand and thus admit an increasingly large supply of foreign metal to the benefit of Anaconda and similarly situated companies. At any event, tariff or no, next year may find American consumers using considerably larger amounts of foreign copper while paying little if any more than at present for their material.

Courtesy Copper & Brass Research.

Interior of American Brass' wire mill—Anaconda subsidiary.

On the other hand, Anaconda's domestic copper production is not particularly low cost nor is it prolific although the metal obtained from its own mines when added to that obtained from ores purchased from others is fairly adequate to supply the ordinary needs of its own fabricating division. Anaconda's fabricating facilities consist of the wholly owned American Brass Co. of Connecticut and the controlled Anaconda Wire & Cable Co. which between them constitute the largest fabricating combination in the world. The products cover all of the accepted forms of copper and brass and plants are located close to heavily industrialized areas and shipping points which gives them excellent facilities for the service of domestic and export demand. With the demand for fabricated products at high levels and still rising, Anaconda's domestic copper production capacity is inadequate to supply all of the needs although this is one company that will not have to worry much over the availability of adequate supplies of raw materials.

Zinc Production Capacity High

An important metal in the manufacture of brass is zinc and here again, Anaconda is one of the largest producers in the world. Anaconda's wholly owned or controlled zinc interests produce approximately 13 per cent of the total world output of this metal. Wholly owned mines produce about 17 per cent of the total amount while the remainder is obtained from custom ores, concentrates and leased mines. Since a real scarcity of zinc is more likely to develop than a shortage of copper, control of adequate supplies of zinc assures continued operation of the company's brass producing units at reasonable costs. With fabrication activities at high levels and costs reasonably under control, the fabricating division should be a substantial contributor to nearer term future income.

Anaconda's refining capacity for the production of copper, lead, zinc, silver and gold is an important contribution to the capacity of the nation. Owned and controlled refineries can handle upward of 1,200,000,000 pounds of copper, 325,000,000 pounds of zinc and more than 100,000,000 pounds of lead per annum while at the same time producing approximately 250,000 ounces of gold and approximately 18,000,000 ounces of silver. In addition to these metals Anaconda controls through mines leased from Butte Copper one of the largest domestic sources of manganese, an alloy for steel whose scarcity is one of the steel industry's main concerns. Anaconda has recently contracted to sell the United States Government 80,000 tons of concentrated manganese yearly for the next three years and will enlarge the mines' productive capacity to yield approximately 100,000 tons of concentrate yearly. In order to obtain 1 ton of concentrate it is necessary to process 3 tons of ore.

Other than mining and smelting operations are also important contributors to income. For instance, last year Anaconda directly or indirectly produced nearly 90,000,000 board feet of lumber, more than 57,000 tons of phosphates and phosphoric acid, 8,709 tons of arsenic, 986,304 pounds of cadmium, 989 tons of molybdenite and unreported but undoubtedly large amounts of zinc oxide, white lead and copper sulphate. The fabricating divisions produced more than 612,031,000 pounds of copper and brass products.

Since the company floated a $55,000,000 bond issue in 1935 to consolidate debts and other charges incurred in the earlier depression years its financial position has steadily improved. Taking advantage of easy interest rates now prevailing on bank loans, about $33,000,000 of the 4½'s were retired last (*Please turn to page 62*)

The Movie Stocks Today

While Industry Conditions Are Probably at Lowest Ebb No Dynamic Recovery Is as Yet in Sight.

BY JESSE J. HIPPLE

ALTHOUGH the motion picture industry is not super-colossal in point of invested capital, it harbors within its domain difficulties and economic abuses of four-star magnitude. The costs of production have never been amenable to the ordinary methods of control and the products themselves have no predictable value at the time they leave the studios for exhibition.

The industry's profits depend almost completely upon public fancy which often relegates a $1 million production to the ash-can while a low cost "quickie" sometimes—but not often—proves to be a bonanza. Cold business sentiment has never got very far in the movies while extravagant waste of money by highly temperamental producers has frequently resulted in astonishing profits. On the other hand, pictures made under the supervision of bankers who have now and then attempted to protect their advances to producers through representation in the comptroller's department, have proven to be dismal "flops" from a box office standpoint. Enough of the "extravaganzas" have also "flopped" so that the volume of expenditures on any one picture is no guaranty of "sure fire box-office."

The will and ability to spend gigantic sums on production have made American pictures preferred by foreign audiences. Many foreign countries also produce their own motion pictures but nowhere else on earth than in America is it possible to obtain the same degree of opulence and authenticity in costumes, sets and talent. Since American movie producers have bid against the rest of the world for all of these things and have unbelievable sums of other peoples' money with which to pay for them, these superlative qualities in American pictures are quite understandable. But while this foreign preference for American pictures has been very satisfying and profitable in times of peace it has become the "tail that wags the dog." When Hitler marched into Poland last September with his legions, American motion pictures began to march out of Europe although they were unaccompanied by any legion of profits which American producers had begun to expect as an annual contribution from abroad.

Back in pre-war days, the motion picture industry could depend upon an average of $10 million a month in gross rentals from foreign sources. Of course, not all of this sum came home to America for approximately half—$60,000,000 per annum—was spent abroad for ad-

Position of Leading Motion Picture Shares

Company	Earned Per Share 1939	Earned Per Share 1940E	1940 Dividend	Recent Price	Price Range 1939	COMMENT
Columbia Pictures (June)	d$0.56	$0.83A	....	5	15¾- 6⅛	Sever retrenchment and pictures for domestic markets offsets foreign losses.
Consolidated Film Indust.	d0.33	d0.25	....	½	2⅛- ¾	Company processes films for others. Prospects uninspiring.
General Theatre Equipment	1.17	1.25	$0.60	10¼	15½- 8⅛	Should benefit from ability to make optical instruments for war purposes
Loew's, Inc. (August)	5.37	5.00	1.50	25¼	54½-30½	Loew's is among most successful of the industry and should do well.
Paramount Pictures	1.07	1.00	0.30	7¼	14⅛- 6⅛	Is not likely to do better than average.
Pathe Film	0.64	0.75	....	10	13⅛- 5¾	Main attraction is du Pont sponsorship.
Technicolor	1.08	1.25	0.50	9	22¼- 9⅞	Efforts to make pictures attractive should increase use of technicolor.
20th Century-Fox	1.58	1.00	....	5½	26¼-11⅜	Further foreign and picture writedowns will be necessary.
Warner Bros. August	0.36	0.25	....	2½	6⅞- 3½	Accumulated preferred arrears indicate eventual recapitalization.

E—Estimated. A—Actual.

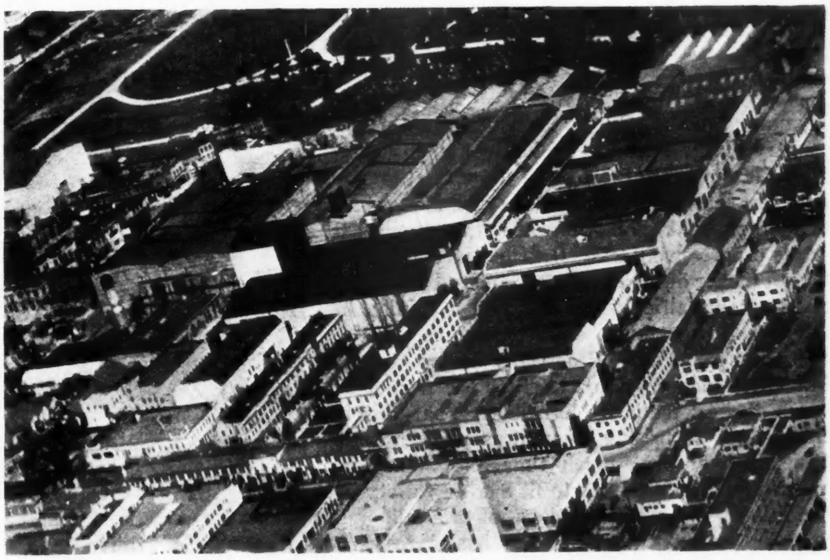
vertising, distribution and the host of other smaller items. The British Empire—mainly because so many of its inhabitants also speak the English in which most of the movie-talkies are made—has been the American movie producers' best customer; furnishing the greatest part of $36,000,000 per annum net income from Great Britain and the colonies while Canada and Australia contributed substantially to the remainder. Specially sound-tracked pictures made for Spanish consumption have found good demand in South America although Spain itself has much time but no money for such amusement. Italy and Germany have long since banned most American pictures while Japan and the Orient have been more enamoured with the more understandable—to them—affairs of "Mickey Mouse" than the most subtle emotings of Hedy Lamarr. Despite the varying degrees of preference, only the Canadian, Australian and South American markets now remain unhindered for American films although a very small trickle of earnings continues to come out of England. Of the former $60,000,000 revenues received annually from abroad the American motion picture industry will do well to receive half that amount this year.

That "every cloud has a silver lining" is a well worn cliche but it was also a favorite title in pre-sound days. In the industry's foreign cloud, there is a very small spot of silver. This is the fact that of the 278 films imported from foreign countries into the United States during 1939, all but 48 of them were made in countries which are now closely involved in the war and as such are not likely to send any more products to this country for exhibition for some time to come. With 230 less pictures for the American producer to compete with at home the additional showings of American pictures will help slightly in overcoming the loss of foreign business. Also, with world competition reduced, American producers should get a larger share of whatever may be left of available foreign business.

While the motion picture industry is a heavy contributor to Federal and state taxes—it paid over $350,000,000 last year—such payments have not resulted in any special privileges. To prevent independent exhibitors from buying only known "hit" pictures and leaving the producer without some chance of at least partial recovery of costs on "flops," a system of film booking was devised whereby an exhibitor had to take a certain number of lower grade pictures in order to secure the one that was proven "box-office." Further to enforce the system and to prevent rebellion which would preclude showings of any producers products in certain areas, most of the producers also acquired a chain of theatres as well. The booking is called "block" bookings and the method has been called "restraint of trade."

Some years back the Government started suit charging restraint of trade which did not come to a satisfactory conclusion and block booking continued. Later on another suit was instituted along the same lines and it is probable that the settlement of this suit will soon be announced on the basis of a consent decree. The manner of distributing will be changed but the large producers will not be forced to give up their theatres and thus will still be able to enforce their wills if they so desire in many key cities. All of which will relieve the companies of heavy legal expenses, at least for the present, although there will probably be many individual forays to test the strength and limits of the decree.

The motion picture industry does pay very heavy taxes but the most prolific source of tax revenues is admission taxes which are levied directly on the consumer. In most cases, the addition of another few pennies of taxes has been accompanied by a small additional impost to bring the admission price and the tax up to a total round sum. The average admission charge has ranged between 24 cents and 20 cents for the past ten years.



Air view of Paramount Studios in Hollywood

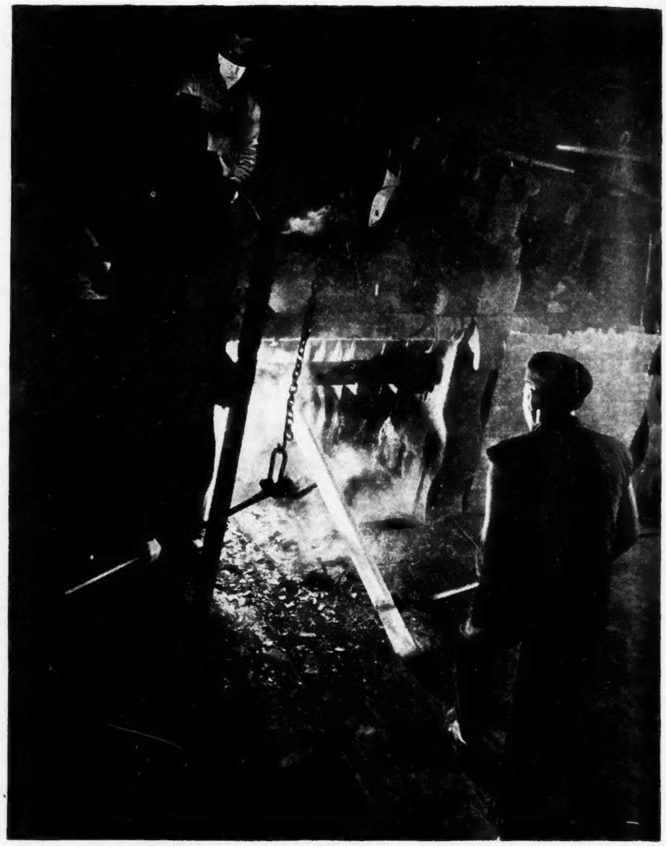
Last year it was 23 cents, unchanged from 1938 but 4 per cent lower than in 1937. This year's average admission price may be moderately higher but it will certainly not be high enough to offset the effects of double features, bingo, bank night, dish night and the number of catch penny ideas advanced to hold up attendance, although patrons would much rather see a good picture in the first place. Elimination of double features will probably not save the motion picture industry for most double feature bills consist of a very mediocre picture as a filler for one of somewhat better quality. Twin showings do, however, offer some excuse for producing poor pictures whose cost might better be expended in improving the quality of the main features.

The motion picture industry has been making valiant efforts to reduce expenses to compensate for the loss of foreign business. Unfortunately, the managements have chosen to reduce the quality of their products by cutting the necessary expenditures for (*Please turn to page* 60)

Crucible Steel in Profitable Era

'40 Earnings Approach '37 Level With Backlog Still Growing

BY PHILIP DOBBS



Courtesy Crucible Steel Co.

Reducing a bar of steel in a small roughing stand. It will later be rolled to 5/8" round.

Crucible Steel Co. of America, one of the country's largest producers of alloy and specialty steels, is similar to most other large steel manufacturers inasmuch as it is fairly well integrated, but from that point onward the similarity grows progressively less. Crucible Steel has long been a maker of high grade carbon and corrosion resisting specialties which have been gaining in industrial importance since the time of the first World War. Practically every major branch of industry finds uses for the particular types of steel made by Crucible. That this is true is not surprising when it is realized that Crucible has spent much time and money in making specific products to fit a wide variety of conditions. Varying fractions of the alloying metals used in conjunction with the basic steel afford the finished product almost innumerable variations of qualities so that it is evident that the number of available alloys is legion.

As a user of tool steels and special metals having high tensile strength, heat resistance, corrosion resistance or other desirable characteristics, the automobile industry has been one of Crucible Steel's best customers. Agricultural implement, oil refining and production supply makers, railroads and tool makers are other large users of alloy steels. The company has worked up a moderate business in stainless steels with the aviation industry and it is expected that this branch of the business will be expanded considerably in coming months. Approximately 18 per cent of the company's finished steel capacity is devoted to the manufacture of pierced billets to be drawn into seamless tubing. Two large pipe makers now constitute the principal customers for this specialty but because of the adaptability of seamless pipes to many defense projects it is believed that this business will also assume a greater degree of importance than it has in the past.

While Crucible Steel makes many items that will be useful in preparedness activities the most direct contact with this type of business is obtained through the U. S. Navy, which is perhaps the company's largest individual customer. Crucible Steel played an active part in the last war as a maker of munitions but, unlike most other munition makers of that time, did not destroy or dismantle its armament making facilities after the close of the war. Accordingly, Crucible Steel is still making many such products for the Navy. Among the items produced are armor piercing shells and shells of other qualities, gun forgings, torpedo parts, periscope tubes, submarine radio masts, torpedo launching tubes and similar items. Although it is not so stated, it is quite likely that the company could also make aerial bombs if called upon to do so because of their similarity to torpedos and other devices already in production. In addition to supplies of special quality and limited fields of application, the Navy is already in the market for a considerable quantity of special steels used in naval construction rather than for armament purposes.

The various steels are produced in about ten major plants, located in New York, Pennsylvania and New

Jersey with one smaller plant in Ohio. Their aggregate production capacity is approximately 952,000 net tons of steel ingots and 754,000 net tons of hot rolled finished steels. Electric furnace capacity for the production of the highest grade alloy steels is being substantially increased from the 124,800 tons yearly reported several years ago. High grade alloy steels furnish the company with about half of its total sales, finished open hearth steels approximately one-third, open hearth steels about one-eighth and the balance by ordnance sales. For the next several years it is probable that ordnance sales will assume greater importance although no decline in the volume of sales of other products is as yet indicated.

Various subsidiaries assure Crucible Steel of an adequate supply of basic steel making materials. Iron ore is purchased from the Snyder Mining Co.—a 50 per cent owned affiliate—which owns sufficient iron ore reserves in the famous Messabi Range of Minnesota to provide Crucible Steel with its ore requirements for approximately fifteen years at the current rate of consumption. Subsidiary coal mining companies have an estimated reserve of more than 35 million tons of high grade Pennsylvania coking coals, mostly in the famous Pittsburgh vein, and reserves of more than 5 million net tons of Pennsylvania limestone complete the facilities. The many alloying elements such as tungsten, molybdenum, chromium, vanadium, cobalt, manganese and tin are purchased from outsiders, as are the required amounts of Bessemer and low phosphorous pig iron and scrap metals.

Preferred Accruals Eliminated

Distribution of finished products is obtained through the maintenance of a chain of about 24 warehouses located at various strategic points and in connection with them nearby sales offices are also maintained. The company's only foreign warehouses are located in Toronto and London, although agencies are still operating in Melbourne and Tokyo.

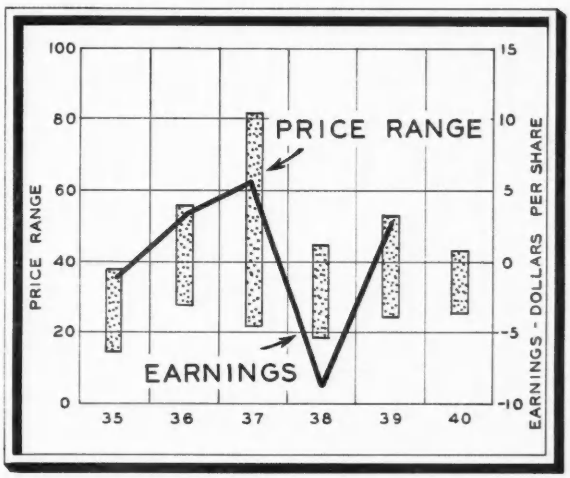
The capital structure consists of $10,800,000 of bonds of which $9,550,000 are 4½'s due in 1948 and a direct obligation of the company while the remainder is a guaranteed serial mortgage bond of a subsidiary which will be completely redeemed by March 1, 1945. An issue of 334,320 shares of 5 per cent preferred stock is followed by 445,198 shares of no par value common. There were accumulated dividends of $40.75 a share on the preferred stock which have been eliminated by the exchange of one share of the old preferred and accumulated dividends for 1.4 shares of a new, 5 per cent convertible preferred issue. The new preferred stock, cumulative as to dividends from July 1, 1940, is convertible on a basis of two shares of common for each share of preferred. The old $100 par value common stock was exchanged for an equal amount of no par value new common.

A survey of the company's properties dated January 1, 1940, reduced the historical costs of the fixed tangible property from $80,577,306 to the present book figure of $40,753,799. This change in property valuation together with other smaller charges resulted in the changing of an earned surplus of $21,664,638 shown at the close of 1939 to an operating deficit of $18,899,512 as of June 30, 1940. It is proposed to eliminate this deficit and set up in its stead an earned surplus of approximately $2,030,145 through changing the par value of the common stock and its stated book value.

Despite the bookkeeping adjustments after the turn of the year which reduced the company's total assets from $115,333,651 at the close of 1939 to $75,081,424 as of June 30, 1940, current assets at the later date were reported at $29,400,481 as compared with $27,810,969 on December 31 last and $22,391,518 on June 30, 1939. Inventories on June 30 were $18,780,126 as compared with $13,519,195 a year ago and the largest increase in individual inventory items was in raw materials which were carried at $7,169,424 at the year-end and have since been substantially increased. Commenting on the rise in inventory in the annual statement, Mr. F. B. Hufnagel, Chairman of the Board, pointed out that the additional amount represented the acquisition of supplies of ferro-manganese, tungsten and other alloying materials that might prove hard to get at a later date and the possession of which would permit the company to avoid delays and higher costs incidental to a real scarcity of these articles.

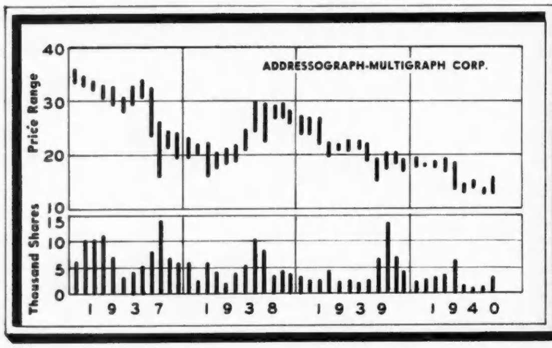
Current liabilities of $6,562,427 on June 30 were composed of $950,000 of maturing bonds and tax reserves of $5,612,427. Total current assets were almost 4½ times greater than total current liabilities and cash on hand on the same date was not only sufficient to take care of the bond maturities but a large part of the tax liability as well. There were no bank loans or similar obligations outstanding at the mid-year.

As is the case with any business catering to the needs of heavy industry, earnings have always fluctuated in keeping with the fortunes of the capital goods manufacturers. Accordingly, net income has followed the characteristic pattern of companies engaged in similar lines of endeavor. For the past ten years, however, Crucible Steel failed to cover a good part of fixed charges in but three of the ten years—1931, 1932 and 1938—and in all but three of the years reported some earnings on the preferred shares. When business was reasonably good earnings mounted sharply on a relatively small improvement in sales, as witness the results of last year as compared with 1938. In 1939, a sales increase of less than $19,000,000 *(Please turn to page 54)*



Eight Low Price

ADDRESSOGRAPH-MULTIGRAPH CORP.



BUSINESS: The company specializes in the manufacture and sale of addressing, mailing, office printing and duplicating machinery. All of the machines require numerous accessories in order to operate or to expand their field of application and it is the sale of these extras that provide more than 50 per cent of the company's gross income. The balance accrues from the sale of new machines. All large companies use at least one of the several machines made by the company. They are particularly applicable to large banks, public utilities, department stores, insurance companies, publishers and others having large quantities of bills, circulars, printed forms, etc., to distribute and print. About 25 per cent of total sales have been to foreign countries although the largest part of exports have been to Canada and Great Britain.

FINANCIAL POSITION: The company maintains a strong financial position and adequate working capital. At the close of 1939, total current assets of $7,932,276 were more than 5 times larger than total current liabilities of $1,562,244 which was exceeded by cash items alone by more than $600,000. At the same time there were outstanding $2,200,000 par value of 3⅝ per cent debenture bonds due in 1953 of which $150,000 are callable each year at 100 for sinking fund purposes. An additional $150,000 of bonds were carried as a current liability since they are to be retired on December 1 of this year.

OUTLOOK: The adaptability of the company's products to rising industrial and business activities holds promise of moderately better business over the medium term. Army training and increased staffs of Government bureaus will necessitate enlarged purchases of stencils, type plates, ribbons, inks and the countless other accessories that represent the company's major stock in trade. Earnings in the first half of this year serve to show the probable longer term trend and in the interim it is likely that the current $0.25 quarterly dividend rate will be maintained despite the fact that it was recently reduced from $0.35 a quarter in order to conserve cash for expansion purposes.

MARKET ACTION:	Address-Multi.	Market Average	Address-Multi's moves in rel. to av.
'37 high to '38 low..........	53% decline	64% decline	17% narrower
'38 low to '38 high..........	80% advance	76% advance	5% wider
'38 high to '39 low..........	48% decline	34% decline	41% wider
'39 low to '39 high..........	77% advance	44% advance	75% wider

Average volatility on four moves 12% greater on declines but 40% greater on advances than M. W. S. index of 309 common stocks.

COMMENT: Recent price—15. While earnings should be moderately better than a year ago current prices are sharply below 1939 high levels.

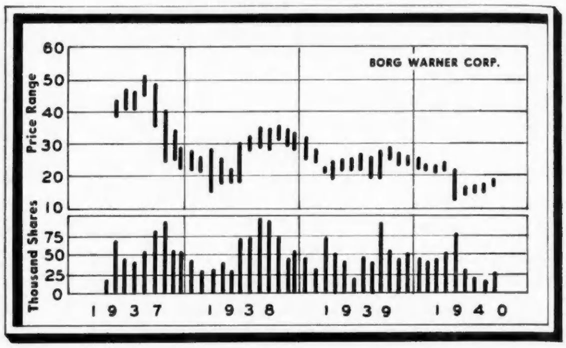
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932..........	$6.262	d$.372	d$.51	$.50	14 - 8½
1933..........	6.075	d .322	d .43	....	12½- 5⅛
1934..........	8.407	.465	.62	....	11⅜- 6
1935..........	9.518	.830	1.11	.30	24⅜- 8
1936..........	11.789	1.320	1.75	.95	37¼-22⅛
1937..........	14.515	1.951	2.59	1.30	36 -16½
1938..........	12.141	.907	1.20	1.40	30 -16⅝
1939..........	11.580	1.022	1.35	1.05	27½-15½
1940 (1st half)..	NA	.497	.66	* .95	*19½-12½
1939 (1st half)..	NA	6.429	6.56	....	....

*—To date. NA—Not available. d—Deficit.

Thumbnail Stock Appraisal

BORG WARNER CORP.



BUSINESS: Borg Warner formerly was almost totaly dependent upon the automotive industry for its sales but in more recent years has developed a line of products including the well publicized "Norge" refrigerator, household equipment and varied items processed from steel. Automotive equipment still furnishes approximately 50 per cent of gross sales although the Norge line now accounts for about 33 per cent while miscellaneous items supply the remainder. The automotive line consists principally of transmissions and clutches with smaller sales of carburetors, universal joints and chains making up the remainder. Almost every car made contains at least one of Borg-Warner's products. Since the beginning of this war the company has been receiving small orders for aviation parts, and other items for the Army and the Navy.

FINANCIAL POSITION: There are neither preferred stocks nor funded debt ahead of the 2,336,710 shares of $5 par value common stock outstanding at the end of June of this year. At the same time, net working capital of $26,311,034—which consisted of nearly $16,000,000 in cash as well as ample inventories as compared with but routine current debts of $7,407,109—was apparently more than ample for the company's immediate needs. Inventories, at $12,087,137, were about $2,000,000 higher than on the same date of a year ago but since they represented only about 20 per cent of 1939 net sales they do not appear to be burdensome.

OUTLOOK: The company is favored by practically every recent industrial development. The automobile industry plans to operate at even somewhat better levels than in 1939 and rising consumer purchasing power make the prospects of the refrigerator division and other specialties attractive. Coupled to these is the fact that the company is participating increasingly in the rearmament boom and while the amount is as yet relatively small it is possible that the business will reach important proportions. Based upon half year results, it is estimated that 1940 earnings will run approximately 20 per cent ahead of 1939.

MARKET ACTION:	Borg Warner	Market Average	Borg Warner's moves in rel. to av.
'37 high to '38 low..........	67% decline	64% decline	4% wider
'38 low to '38 high..........	121% advance	76% advance	59% wider
'38 high to '39 low..........	48% decline	34% decline	41% wider
'39 low to '39 high..........	72% advance	44% advance	63% wider

Average volatility on four moves 41% greater than M. W. S. index of 309 common stocks.

COMMENT: Recent price—19. With earnings moderately higher than last year's satisfactory levels the shares are selling about 68 per cent below their 1939 highs.

Long-Term Record

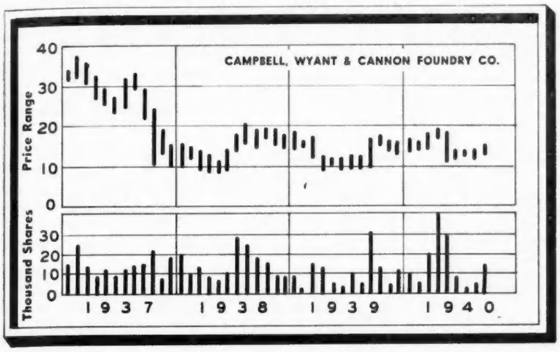
	Net Sales	Net Income (millions)	Net Per Share (a)	Dividends (a)	Price Range(a)
1932..........	NA	d$.598	d$.36	$.12½	7⅛- 1⅝
1933..........	NA	1.196	.42	.12½	11⅛- 2¾
1934..........	NA	3.751	1.53	.62½	15⅜- 8
1935..........	NA	6.983	2.75	.87½	35¼-14⅛
1936..........	NA	8.327	3.57	2.00	45⅛-32
1937..........	NA	8.348	3.63	2.50	50⅝-22¼
1938..........	NA	d .020	d .01	.25	36⅜-16½
1939..........	NA	5.684	2.43	1.35	32 -18¾
1940 (1st half)..	NA	2,831	1.21	*75	*25⅞-12⅞
1939 (1st half)..	NA	2,416	1.03	....	....

NA—Not available. d—Deficit. *—To date. (a)—Adjusted for 2-1 split, March, 2937.

Thumbnail Stock Appraisal

Dividend Payers

CAMPBELL, WYANT & CANNON FOUNDRY CO.



BUSINESS: The company is engaged in one of the more stable branches of the automotive equipment industry. It manufactures cylinder blocks for automobiles and tractors and also manufactures a new alloy metal "Proferall" which is adaptable as a replacement for a number of other alloys in automobile construction. Other products—of lesser importance—include cylinder heads, housings, special type brake drums, manifolds, flywheels, etc. The company ranks as the largest of its type in the world and its customers include General Motors, Ford, Chrysler and most of the independent automobile manufacturers.

FINANCIAL POSITION: There are no funded debt or bank loans ahead of the 344,925 shares of common stock which were outstanding at the year end. At that time, current assets of $2,988,824 were nearly five times larger than total current liabilities. Cash items of $969,384 were in themselves well in excess of then total current liabilities. By the middle June, 1940, total current assets had risen to $3,122,435 and the asset ratio rose to better than seven to one. The company's inventory position at the close of 1939 was satisfactory although approximately 30 per cent greater than at the close of 1938. Inventories of approximately $1,241,800 at the close of last year were equal to approximately 25 per cent of the year's net sales; a not burdensome position. Dividends, which were resumed in 1935 after a lapse of 3 years, have been maintained to date.

OUTLOOK: Under seasonal influences, the first half of the company's year is generally less profitable than the second half. Yet, in the first half of 1940 the company earned $1.07 a share of common stock as compared with a small loss in the same period of 1939. Second half results should be considerably better than those of a year ago and the longer term outlook is enhanced by the possibility that the company will eventually participate in defense orders to a fair extent. In the interim, increased automobile and tractor demand promise sustained business to the company for some time ahead. Dividends, likewise, should be continued although the rate may later be improved.

MARKET ACTION:	Campbell, Wyant & Cannon	Market Average	Campbell's moves in relation to avge.
'37 high to '38 low.........	76% decline	64% decline	18% wider
'38 low to '38 high.........	137% advance	76% advance	83% wider
'38 high to '39 low.........	55% decline	34% decline	61% wider
'39 low to '39 high.........	94% advance	44% advance	113% wider

Average volatility on four moves 38% greater on declines but 98% greater on advances han M. W. S. index of 309 common stocks.

COMMENT: Recent price—15½. Longer term prospects are improved by prospects of heavier orders for rearmament purposes.

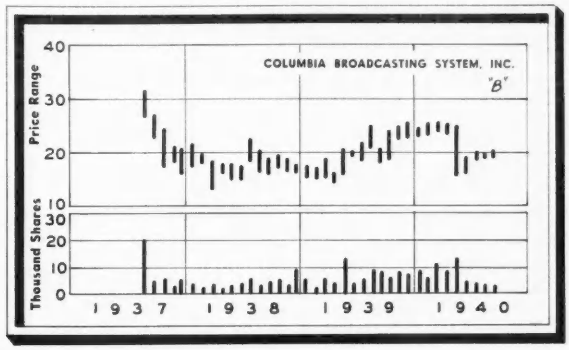
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932.........	NA	d$.312	d$.93	....	9¼- 2½
1933.........	NA	.040	.12	....	16¼- 2
1934.........	NA	d .017	d .05	....	15⅞- 6
1935.........	NA	.654	1.90	$.65	33⅜- 7½
1936.........	NA	1.045	3.04	2.25	40¼-30
1937.........	NA	.475	2.62	1.25	37⅜-10½
1938.........	NA	d .199	d .33	.25	20½- 8⅝
1939.........	$4.795	.321	.93	.20	17¾- 9⅛
1940 (1st half)..	NA	.369	1.07	* .90	*19½-11
1939 (1st half)..	NA	d .039	d .11	....	....

NA—Not available. d—Deficit. *—To date.

Thumbnail Stock Appraisal

COLUMBIA BROADCASTING SYSTEM, INC.



BUSINESS: As far as high-powered broadcasting outlets are concerned Columbia Broadcasting System is the largest in the radio industry. The System operates 119 stations in 117 cities located in the United States, Canada, Hawaii and Puerto Rico. In addition to broadcasting facilities, Columbia maintains complete artists bureaus and other facilities for the benefit of the public and the advertiser. Entertainers are provided for private affairs as well as for radio broadcasting.

FINANCIAL POSITION: At the close of 1939 there were no funded debt or other fixed obligation ahead of the A and B common stocks although there were approximately $2,381,150 outstanding in bank loans and mortgages. The A and B shares, differing only in the manner in which they elect representative directors, were outstanding in the combined amount of 1,716,277 shares at the end of last June. At the close of 1939, the company was in an excellent financial position with current assets of $10,303,782 being nearly 2½ times as large as total current liabilities. Cash items of $6,318,916 were in themselves well in excess of the total quick debt of $4,316,730. Net income for the first 6 months of 1940 was $2,957,276 or approximately 8 per cent higher than a year ago.

OUTLOOK: Although non-recurring expenses for covering various political activities are likely to take a somewhat larger toll of earnings than in off-years, increased time sales will probably maintain the gains in net income indicated for the first half of the year. The Columbia Recording Corp. and subsidiaries acquired in 1939 will probably add substantially to the company's earnings as will the additional broadcasting facilities which have been added from time to time to the system. Earnings for the past four years have been relatively high and this year's results are not likely to be sharply higher than the four year average thus minimizing the possible adverse effect of high excess profits taxes upon the net available for the stockholders.

MARKET ACTION:	Col. B'd'c'tg Company "B"	Market Average	Columbia's moves in relation to avge.
'37 high to '38 low.........	57% decline	64% decline	12% narrower
'38 low to '38 high.........	68% advance	76% advance	10% narrower
'38 high to '39 low.........	38% decline	34% decline	12% wider
'39 low to '39 high.........	81% advance	44% advance	84% wider

Average volatility on four moves about even on declines but 37% greater on advances than M. W. S. index of 309 common stocks.

COMMENT: Recent price—10. Excellent average earnings for the past four years indicate no additional heavy penalization by taxes for this year.

Long-Term Record

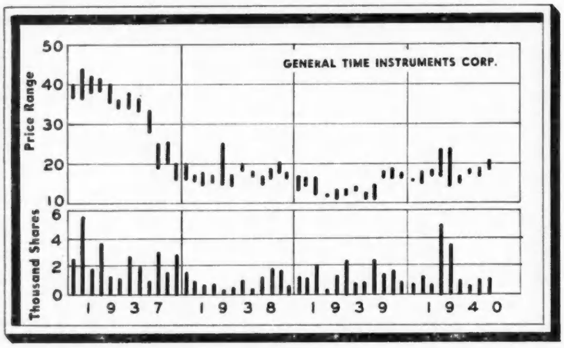
Year	Gross Income (millions)	Net Income (millions)	Net Per Share (z)	Dividends (z)	Price Range
1932.........	NA	$1.623	$.94	$ .80	NA
1933.........	NA	.924	.54	.80	NA
1934.........	NA	2.274	1.32	1.38	NA
1935.........	$21.417	2.810	1.64	1.30	NA
1936.........	27.780	3.756	2.20	1.65	NA
1937.........	34.240	4.298	2.52	1.95	31½-16⅝
1938.........	32.663	3.542	2.07	1.25	22⅜-13
1939.........	40.317	5.002	2.93	1.50	25¼-14
1940 (1st half).	17.689	2.957	1.72	*1.35	*26¼-16
1939 (1st half).	15.077	2.733	1.60	....	....

(z)—Combined "A" & "B" shares adjusted for 5-1 split in 1934 and 50% stock dividend also 2-1 split in 1937. NA—Not available. *—To date.

Thumbnail Stock Appraisal

Eight Low Price

GENERAL TIME INSTRUMENTS CORP.



BUSINESS: General Time Instruments Corp. manufactures and sells a full line of time pieces ranging from large wall clocks to wrist and pocket watches. Other time pieces include tower clocks, vault time locks, timing devices for cooking and industrial purposes, time recording devices and various instruments. These devices are both spring and electric motor driven. Trade names include the well-known labels of Westclox, Big Ben, Little Ben, Seth Thomas, Stromberg and Sterling. Through the Seth Thomas line the business is a direct descendent of a clock making firm established early in the last century.

FINANCIAL POSITION: The company has no funded debt and at the close of last year, no bank loans or similar obligations. An issue of 38,539 shares of 6 per cent dividend, $100 par value preferred stock preceeds the 333,243 shares of no par common stock which were outstanding on June 30, 1940. Since the first of the year the company's financial position has probably showed further improvement over the very strong showing made in the 1939 balance sheet. At the first of the year, total current assets of more than $7,000,000 were nearly six times greater than total current liabilities of $1,201,846. Cash items alone of nearly $3,000,000 were in themselves well in excess of the total quick debt. Working capital of more than $5,800,000 was apparently ample for the company's needs.

OUTLOOK: The company has two foreign subsidiaries—one in Canada and the other in England—but the English plant has been closed for the duration of the war. On the other hand, the Canadian plant is operating at close to full capacity and promises to continue to do so as long as war conditions persist. During the past four years sales were remarkably stable in the vicinity of $11,000,000 per annum. It is likely that 1940 sales have been running comfortably ahead of those of a year ago although due to capital leverage it is probable that the increase in sales has not been as great as the gain in earnings per share. Longer term prospects are enhanced by the company's ability to manufacture needed munitions equipment.

MARKET ACTION:

	General Time Instr.	Market Average	Time Instr's moves in relation to avge.
'37 high to '38 low	68% decline	64% decline	4% wider
'38 low to '38 high	44% advance	76% advance	42% narrower
'38 high to '39 low	45% decline	34% decline	32% wider
'39 low to '39 high	69% advance	44% advance	57% wider

Average volatility on four moves 18% on declines but 49% greater on advances than M. W. S. index of 309 common stocks.

COMMENT: Recent price—19. Sharply higher earnings for this year will be subject to excess profits.

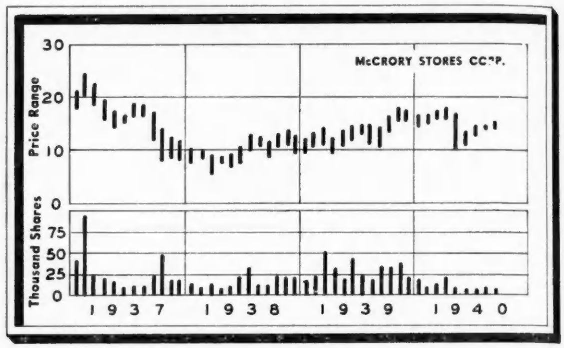
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932	$4.0	†	d$5.86	....	NL
1933	4.7	$.04	d .99	....	NL
2934	6.7	.69	.38	....	NL
1935	7.9	.85	2.24	....	NL
1936	11.7	1.42	3.63	$.75	44⅛-30⅛
1937	12.3	1.32	3.29	1.75	43⅞-16
1938	9.7	.10	d .38	.15	20¼-14
1939	11.7	1.00	2.31	1.00	18 -10½
1940 (24 wks.)	5.5	.6	1.43	x1.25	x23½-13⅞
1939 (24 wks.)	4.4	.2	.18	....	....

†—Not reported. d—Deficit. x—To date. NL—Not listed.

Thumbnail Stock Appraisal

McCRORY STORES CORP.



BUSINESS: McCrory Stores Corp. operates a chain of variety stores with a line of merchandise ranging in selling price from 5 cents to $1. As of August 31, 1940, the company had 203 units in operation although the number of stores open vary considerably from time to time. One or more stores are operated in twenty-five states with the greatest concentration being in the highly industrialized and populous areas of the East. A plan of reorganization which was effectuated in 1936 permitted the company to adjust previously burdensome leases and to regain working capital.

FINANCIAL POSITION: The capitalization consists of about $2,920,000 of long term debt, 50,000 shares of $6 dividend convertible preferred and 990,253 shares of $1 par value common stock. At the close of 1939, the company was in a strong financial position with total current assets of $10,727,349 being better than three times greater than total current liabilities of $3,515,832. Cash items of $5,193,000 were in themselves well in excess of the total near term debt. Inventories of $5,526,042 after suitable reserves, were well above those of the previous year although they were relatively small in comparison with prospective sales of more than $46,000,000 for the current year.

OUTLOOK: The reorganization substantially improved the company's power to operate profitably, a fact that is becoming more apparent as time goes on. At this time sales are favored by the location of the principal stores which are situated in areas that are becoming increasingly active. Over the longer term it is probable that profit margins will decline somewhat due to the increasing difficulty of obtaining satisfactory merchandise to sell within the price limits established by the company. However, there will probably be no compromise with quality and while profit margins will decline somewhat, net earnings—due to larger sales volume—will probably be moderately better than in the more recent past.

MARKET ACTION:

	McCrory Stores	Market Average	McCrory's moves in relation to avge.
'37 high to '38 low	75% decline	64% decline	14% wider
'38 low to '38 high	123% advance	76% advance	61% wider
'38 high to '39 low	27% decline	34% decline	20% narrower
'39 low to '39 high	76% advance	44% advance	72% wider

Average volatility on four moves about 3% greater on declines but 66% greater on advances than M. W. S. index of 309 common stocks.

COMMENT: Recent price—15½. While never highly volatile the shares should reflect more adequately the constantly improving position of the company.

Long-Term Record

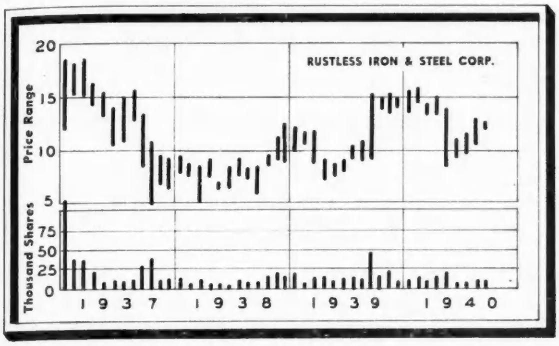
Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932 (R)	$39.67	d$.10	d$.91	....	(a)16 - 6½
1933 (R)	31.98	d .38	(R)	....	(a) 4⅞- ⅜
1934 (R)	34.13	1.77	(R)	....	(a)19¼- 1⅛
1935 (R)	35.39	1.77	(R)	....	(a)14⅞- 7¼
1936	40.24	2.44	2.16	....	(a)16¼-11⅝
1937	41.00	2.17	1.89	$.50	24⅛- 7¾
1938	40.01	1.77	1.48	.75	13⅜- 6
1939	43.19	2.23	1.95	1.00	17⅜- 9¾
1940 (1st half)	20.02	†	†	.75	17⅞-10
1939 (1st half)	18.84	†	†	....	....

(R)—Receivership. d—Deficit. †—Not reported. (a)—Old stock exchanged share for share for new.

Thumbnail Stock Appraisal

Dividend Payers (cont'd)

RUSTLESS IRON & STEEL CORP.



BUSINESS: This company is a manufacturer of alloy steels of the rustless or stainless variety. The alloys are mainly of chrome in combination with iron and in certain cases with nickel. The metals are produced in electric furnaces and are sold in semi-finished ingots, billets, slabs, sheets and bars. These products are in demand wherever a corrosion proof, light steel alloy is desired. American Rolling Mills is rated as being the company's best customer, taking about 28 per cent of the total amount billed in 1939. The company is not completely integrated inasmuch as most of its required materials and power are purchased from others. The most critical raw material is chrome which the company currently purchases abroad although it expects to become self-sufficient in this item in the near future.

FINANCIAL POSITION: About 36,512 shares of $2.50 preferred stock and 926,547 shares of $1 par value common stock constituted the company's only capital obligation on June 30, last. There were, however, $1,500,000 of bank loans outstanding at the same date, representing additional funds require to finance plant expansions made necessary to handle the large volume of business that has been accruing in recent months. Despite bank loans, the company was in a good financial position with current assets of $3,319,040 being almost 3 times greater than total current liabilities. Of the total current liabilities of $1,135,582, approximately $200,000 was short term bank debt not included in the long term figure given above. Inventories of $1,754,189 were substantially higher than a year ago although in this instance such an inventory position is desirable in view of the scarcity of some materials.

OUTLOOK: The growing demand for alloy steels has found reflection in record size unfilled order backlogs for this company. Production facilities are being expanded but so far the increased capacity does not seem likely to become burdensome in the later event of a somewhat slower pace of industrial activity. Profit margins will continue to be satisfactory.

MARKET ACTION:

	Rustless Iron & Steel	Market Average	Rust. I. & S. moves in relation to avge.
'37 high to '38 low	71% decline	64% decline	10% wider
'38 low to '38 high	145% advance	76% advance	90% wider
'38 high to '39 low	40% decline	34% decline	17% wider
'39 low to '39 high	92% advance	44% advance	109% wider

Average volatility on four moves 15% wider on declines and 99% wider on advances than M. W. S. index of 309 common stocks.

COMMENT: Recent price—13½. The company operates in one of the fastest growing divisions of the steel industry.

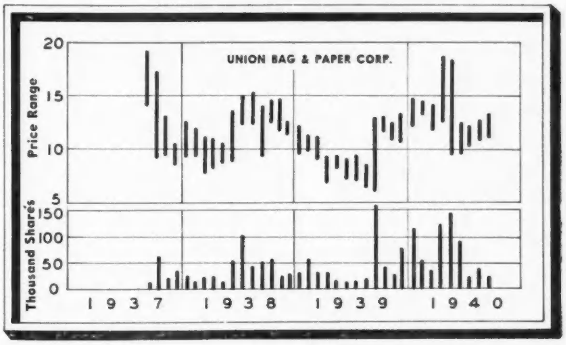
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1932	NA	NA	NA	....	NL
1933 (1)	NA	$.02	†	....	NL
1934	$ .8	d .02	d$.03	....	NL
1935	1.7	.17	.23	....	4 - 3½
1936	2.6	.35	.43	....	13⅞- 3⅝
1937	4.2	.71	.77	....	17¾- 5
1938	2.3	.08	d .01	....	12¼- 5
1939	6.4	1.09	1.13	$.25	15½- 7
1940 (1st half)	4.2	.63	.63	* .45	*15⅜- 8
1939 (1st half)	2.4	.40	.41	....	....

(1)—10 months. †—Not reported. NL—Not listed. *—To date. NA—Not available.

Thumbnail Stock Appraisal

UNION BAG & PAPER CORP.



BUSINESS: In addition to manufacturing approximately 20 per cent of the paper bags of all sorts made in this country Union Bag & Paper also makes kraft pulp, liners, corrugating board and paper. Bag making plants have a capacity of more than 8,000,000 bags an hour and most of the pulp consumed in the making of kraft products is made by the company from its own pulp woods. Ample timber lands are owned in Florida, Georgia and South Carolina. Recent chemical discoveries whereby kraft pulp becomes usable for rayon as well as fine papers makes Union Bag & Paper's timber reserves increasingly valuable.

FINANCIAL POSITION: The company has $4,996,778 of serialized funded debt outstanding. Of this amount, $4,600,000 is due in ten installments beginning within the next three months while the remainder is not due until 1943. The serial issue is held by two large insurance companies. Following the funded debt is an issue of 1,262,729 shares of no-par value capital stock. The financial position of the company is satisfactory. As of the close of 1939 the company had total current assets of $5,104,591 which were approximately five times greater than total current liabilities. Total current liabilities of $989,021 were just slightly lower than total cash on hand at the year end although they included a small amount of notes payable at that time. Inventories of $2,396,561 were low in view of the company's 1939 sales.

OUTLOOK: The inability of the paper industry to obtain adequate supplies of pulp due to war conditions abroad place such companies as Union Bag & Paper in a favored position due to its ability to supply the greatest part of its pulp requirements from its own properties. Paper prices promise to remain relatively high during the period immediately ahead and accordingly indicate that this company's satisfactory profit margin will be fairly well maintained. If net income continues at the same levels of that of the twelve months period ended June 30, 1940, the company may very likely established a new high record for earnings this year.

MARKET ACTION:

	Union Bag & Paper	Market Average	Union's moves in relation to avge.
'37 high to '38 low	66% decline	64% decline	3% wider
'38 low to '38 high	97% advance	76% advance	27% wider
'38 high to '39 low	80% decline	34% decline	126% wider
'39 low to '39 high	105% advance	44% advance	138% wider

Average volatility on four moves 73% greater than M. W. S. average of 309 common stocks.

COMMENT: Recent price—12½. While the shares are quoted about 30 per cent above their year's low point earnings promise to touch a new high.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share (a)	Dividends (a)	Price Range(a)
1932	$6.4	d$ .3	d$.44	....	2⅞- 1⅜
1933	8.3	.4	.69	....	15 - 1⅜
1934	9.3	.7	1.17	$1.00	15¼- 9⅞
1935	9.5	.2	.28	.62½	12⅝- 7¼
1936	11.8	.4	.37	.50	17¼- 9⅝
1937	15.7	1.4	1.32	.50	22¾- 8⅞
1938	16.5	.9	.86	.12½	15¼- 7⅝
1939	17.6	.9	.76	....	13⅛- 6
1940 (1st half)	10.5	1.6	1.26	* .55	*18¾- 9¼
1939 (1st half)	7.5	.2	.18	....	....

(a)—Adjusted for 4-1 split in 1937. d—Deficit. *—To date.

Thumbnail Stock Appraisal

660 h.p. diesel-electric switcher made for New York Central by ALCO-G.E.

American Loc

FOR the second time in the past ten years American Locomotive Company has reported a profitable first half year's operations. True, earnings for the first six months of 1940 did not cover fully preferred dividend requirements — having missed the necessary $3.50 a share by approximately 15 cents—but they did mark a continuation of profitable operations started with the final half of 1939. From what can now be foreseen, there is not likely to be any immediate reversal of the uptrend in earnings although there will undoubtedly be some change in the source of future profits.

Most of the profits of the last half of last year and the first half of 1940 were made practically without benefit of any directly war engendered business. Until but a few months ago, American Locomotive had received only a very small amount of Army or Navy business although Canadian subsidiaries were more fortunate. Most of the $16,606,766 of net sales reported for the first six months of this year were for locomotives, Diesel switching engines and the several other items made by the company which include springs, castings and other relatively less important products. Last half 1940 statements will probably include a somewhat greater proportion of government business, for since passing mid-year American Locomotive has received among other orders one for an unnamed number of tanks for the American government at a price of $32,070,000 and gun carriages for the same buyer valued at approximately $2,500,000.

It is probable that the gun carriages will begin to come out of production before the year end although it is not likely that any appreciable deliveries will be made on the tank order until the first half of next year. While these government orders offer assurance of longer term profitable operations, of more immediate importance is the fact that the railroads are buying locomotives again and will probably step up the pace of their buying as demands upon their service facilities continue to increase.

During the first nine months of this year American Locomotive received orders for 55 steam engines and 30 Diesel-electric engines. During the whole of 1939 the company received domestic orders for but 25 steam locomotives and 53 Diesel-electric engines. To this amount should be added 11 steam locomotives ordered for service in Brazil making a total of 36 in all. There were no Diesel-electrics sold abroad last year and in fact, only 2 such engines have been sold to foreign buyers during the past 4 years.

With the best buying season yet ahead it is probable that American Locomotive will receive considerable additional business in locomotives although it is not likely that total locomotive orders for 1940 will approach the record of 1936 when 159 engines were purchased nor even that of 1937 when orders for 65 locomotives for domestic use were supplemented with foreign orders for 28 engines for China and Mexico which made a total of 93 for that year. Nevertheless, this year's locomotive business—despite the unenthusiastic predictions of Mr. W. C. Dickerman, the president of the company, made upon the occasion of the annual meeting last April—should be better than the recent ten year average and quite satisfactory.

Canada Active

The Canadian subsidiary is active both on Canadian government work and work for Great Britain. Details of orders and operations are naturally not made public since Canada is at war, so there is no way in which the potential business of this end of American Locomotive's activities can be guaged. It is known, however, that of the consolidated net income of $1,313,572 reported by American Locomotive Co. for the first half of 1940, approximately $315,253 accrued from the Canadian subsidiary after conversion from Canadian to American funds at the official rate of exchange. The fact that the Canadian subsidiary is able to sell upward of 30 locomotives each year indicates that it can be a substantial contributor to net income now that all Dominion

Locomotive Gets Busy

Even Without War Orders, Backlog Approaches Former Records

BY STANLEY DEVLIN

production facilities are engaged at full capacity.

During the first world war the locomotive builders became one of the principal sources of armaments and munitions. Of the total quantity of such supplies turned out by the industry, American Locomotive was second only to Baldwin Locomotive in the amount produced. However, in common with many manufacturers who were engaged in such business, American Locomotive scrapped or dismantled its munitions production equipment soon after it became generally believed that there would be no future need for such material. That the belief was wrong is now apparent but since the equipment for the making of munitions has been destroyed and newer and more adaptable plants have since sprung up to take on the burden of munitions making, it is not likely that the locomotive builders will again play quite such an important part in this particular field.

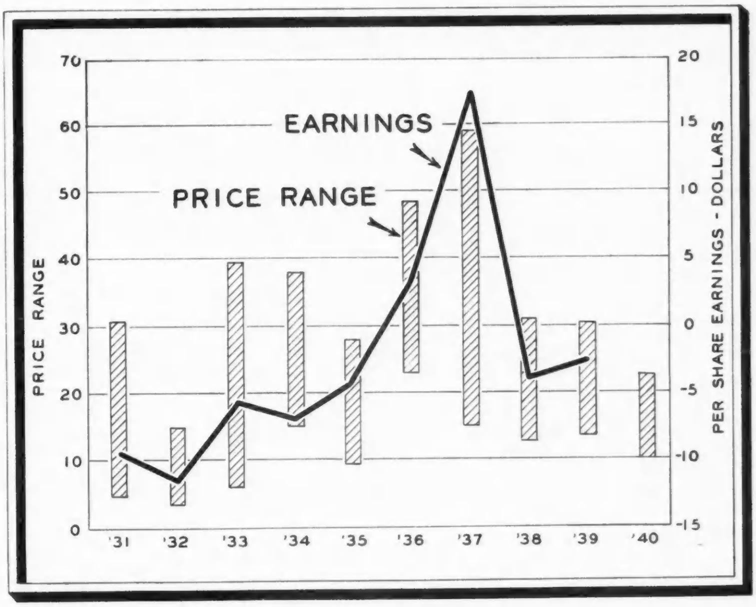
The locomotive builders, despite the changes of the past twenty years, are still able to help the nation in time of war or in defense preparation, for the fashions of war have also changed and these changes bring demands for defensive equipment such as tanks and gun carriages which the locomotive builders are peculiarly equipped to furnish.

New heavy types of anti-aircraft guns and similar armament require heavy carriages and equipment which call for the skillful manipulation of steel, while tanks of varying weights up to 70 tons can be built by no other manufacturer than the railroad equipment maker with the same facility and understanding of the problems involved. The recent order for $32,070,000 of tanks to American Locomotive and orders in approximately the same amount to American Car & Foundry and Baldwin Locomotive indicate the possible scope of this type of business. In addition to the American order, American Locomotive's Canadian subsidiary is said to have received an order for 500 tanks for the British government although their size and cost is not given out.

While the above developments since the last war may be favorable to the company's position it is improbable that anything approximating the profits of the 1914-1919 era will be seen. On the $32,070,000 order for tanks it is probable that the profit will be not more than $2,500,000 gross, and will probably be considerably less after the deduction of taxes and other costs not strictly chargeable to operations. These orders will serve to keep plants operating at full capacity and thus increase operating efficiency and, per se, eventual profits.

The receipt of the government tank order has had another effect and that is to bring unfilled orders up to the unprecedented height of $48,070,000 as of the end of September. Excluding the tank order the order-backlog was $16,000,000 in itself a sizeable figure and excelled in only the most prosperous years of the last decade. Even in the unlikely event that the company receives no further orders this year, those now on hand are sufficient to maintain plants at close to peak capacity operations for the next twelve months.

That it is unlikely that the company will receive no further orders this year is said advisedly since the railroads are again coming into the market for new tractive equipment and some expansion in export demand for locomotives is anticipated. Moreover, the company also manufactures a number of specialties which should serve to hold plant activities at high levels. In recent months the U. S. Navy has made small purchases of special castings from American Locomotive and more are contemplated as the active naval (*Please turn to page* 64)



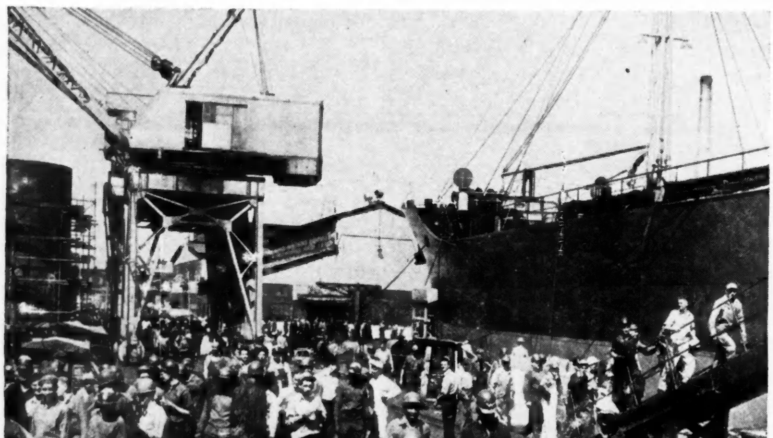
For Profit and Income

Tax Effects

Some light as to the effects of the excess-profits tax and the increase in normal corporate taxes among the utility companies is afforded by the statement of **Columbia Gas & Electric** directors in declaring a 10-cent dividend recently. For 1939 the total of all taxes, federal, state and local, was $1.04 a share of common stock. The directors now anticipate that the increases already enacted will come to more than 25 cents per share of common. The direct relationship between these taxes and dividend policy is shown by the reduction in this latest payment from the 20 cents declared in May of this year.

Capacity Operations

Firestone Tire & Rubber Company's plants at Akron, Ohio, are reported to be operating twenty-four hours a day, six days a week, and this schedule also prevails in the plants at Memphis and Los Angeles. Nevertheless, no market enthusiasm for the rubber stocks, except in a technical way, can be stirred up so long as the present doubtful situation with respect to shipments of crude rubber from the Netherlands Indies continues. Although the U. S. Government has adopted a plan of building up reserve stocks of rubber in this country, insufficient progress has been made as yet to assure the rubber manufacturers or the public of an adequate supply if trouble were to develop in the Far East. Substitutes could shortly be made available, but meanwhile it is quite probable that a shut-down of natural rubber shipments to this country would mean chaotic price conditions and possibly rationing of tires to consumers. Current prices around 20 cents a pound for crude rubber have not yet reached the point of squeezing the tire makers' profit margins.



Charles Phelps Cushing.

Going to work at the yard of the Sun Shipbuilding Co. at Chester, Pa. Government orders have swamped the facilities of practically all ways in the country, and Navy funds are being awarded to augment yards and equipment.

September Sales Lower

Sales of a number of merchandising chains made disappointing showings last month as compared with a year ago. For example, **Woolworth** sales were 2.4 per cent below a year ago, although for nine months the gain amounted to 4.5 per cent. In the case of **H. L. Green,** the September drop was 4.5 per cent, against a gain of 3.6 per cent for the eight months ending September. Explaining the drop in sales last month is the fact that September, 1940, had only four Saturdays in the month, while a year ago there were five. In addition, H. L. Green had only 149 stores in operation on September 30, which represented a reduction of 2 over the year.

Record Orders

General Electric Co. has announced that orders received for turbines in the first nine months of 1940 were more than $90,000,000, a new record. The orders were divided about equally between U. S. Navy work and regular utility and industrial customers. The last time any such quantity of turbine business as

FOUR SPECIAL SITUATION GROUPS

Tabulated below are representative issues in four groups that are for one reason or another in positions out of the ordinary at the present time. Canadian gold mining stocks are offering extremely high yields to American investors, due to the discount on the Canadian dollar, the fear of higher Canadian taxes, and doubts as to the relation between the price of gold and the costs of the mines. New York bank stocks acquire new interest because of the recent persistent growth in commercial loans in this district, presumably as a result of the business pickup and defense activities. The trend would have to go considerably further, but it could mean the retrieval of some part of the banks' normal earning activities. Steel preferred issues, of all grades, are in the limelight bcause of the sudden return to capacity operations and the effects of the excess profits tax. Second grade rail bonds have stood out in the market for very much the same reasons.

Each of these groups involves a speculation of a different sort and no blanket recommendation is intended. For those looking for particular qualities, however, the issues below deserve attention.

Company	Earnings 1939	Earnings 1st Half 1940	Dividend Rate	Recent Price	Yield	1940 Price Range High	1940 Price Range Low
CANADIAN GOLD MINING							
Lake Shore Mines (June)	2.77	....	2.00(a)	14⅞	13.3	25⅞	10
Hallinger Consolidated	1.15	0.60	1.10	12⅞	11.8	12	5¾
McIntyre Porcupine (March '40)	4.66	1.22*	2.00	36	5.5	47½	26
Noranda Mines	4.98	2.31	4.00	58	6.9	78½	43
Wright-Hargreaves (August)	0.74	....	.70	4⅜	15.5	6⅝	3⅛
NEW YORK BANKS						1939 Range	
Bankers Trust	2.80	....	2.00	49½	4.4	61¼	47⅛
Chase Nat'l Bank	1.80	....	1.40	29¾	4.7	38¼	29
Guaranty Trust	13.15	....	12.00	271	4.4	290	235
Manufacturers Trust	3.71	....	2.00	33¾	5.9	41¼	35¼
National City	3.04	....	1.00	24½	4.8	32⅜	22⅛
STEEL PREFERREDS			1940 Div'd			1940 Range	
Bethlehem Steel 7	23.08	5.84	5.25	123	5.7	125½	109½
Jones & Laughlin 7	5.43	5.58	3.00	85¼	....	91½	48½
Pittsburgh Steel Prior 5½	4.18	3.49	....	51	....	57½	19
Republic Steel A (6)	37.80	22.85	4.50	85¼	....	86¾	60
United States Steel 7	11.41	10.08	5.25	123	5.7	125	103½
SECOND GRADE RAILS		Coupon	Maturity		Current Yield		
N. Y. Central	....	4½	2013	57¾	7.79	60⅞	38
Pere Marquette	....	4½	1980	64½	6.98	67½	45
Illinois Central	....	4¾	1966	41¾	11.40	46⅜	28¾
Southern Railway	....	4	1956	56¾	7.05	61⅝	42
Pitts. & W. Va.	....	4½	1960	58	7.76	64	40

* ¼ ended 6/30/40. (a) Pd. 3.75 in 1939.

this was booked was in 1917 when orders amounted to $56,000,000.

Over the next fifteen months General Electric will spend $50,000,000 in expansion of its plants at Lynn, Mass., Pittsfield, Mass., Schenectady, N. Y., Erie, Pa., Bridgeport, Conn., Philadelphia, Pa., and Fort Wayne, Ind. The company will finance this expansion out of its own resources, with a good part of it coming under the provisions of the Government's new plan for enlargement of national defense facilities.

Reprieve

One of the country's old-line corporations is taking steps to prevent its existence from expiring by limitation within a few months. **American Sugar Refining Co.** was incorported on January 10, 1891, with a limit of 50 years, so its charter would automatically expire next January. Stockholders are being asked to approve by a two-thirds majority a new lease on life to extend through January 10, 1991.

Earnings Comeback

Among the outstanding performers in recent sessions has been **General Steel Castings preferred.** This issue has been down as low as 14 during 1940 and has recently touched a high of 50¾. Accumulations of unpaid dividends as of October 1, amounted to $55.50 a share. There are only 100,000 shares of this issue outstanding, with the common owned by several of the larger rail equipment companies. In addition to heavier orders for locomotive chassis, General Steel Castings has been receiving both British and American business in supplying the armor for heavy tanks. Earnings have shown extremely wide variations over the past decade and at the present time the uptrend is very pronounced, with first half results of 72 cents a share of preferred likely to be greatly exceeded in the current six months.

135 Per Cent Gain

Sales of **General Motors** cars and trucks to dealers totaled 124,692 in September, an increase of 135 per cent over September, 1939. Consumers, however, with purchases of 97,527 units, registered an increase of only 71 per cent over a year ago. The coming weeks are expected to cut these margins of increase down very substantially, although in the case of Chrysler, interference of the strike last Fall will allow favorable comparisons.

Expansion Funds

Aside from direct orders for ships, equipment and munitions, the U. S. Navy has just awarded substantial amounts of cash to be used by individual plants in expanding their facilities. Among these awards were:

Bethlehem Steel—$28,922,000—for shipbuilding plants and equipment, divided among four of its shipbuilding divisions. Also $23,608,000 for new furnaces, buildings and equipment in its steel making division.

Gulf Shipbuilding Corp.—$2,500,000—for ways, buildings and equipment.

Bath Iron Works—$1,600,000—for equipment and machinery.

New York Shipbuilding — $10,500,000—for ways and equipment.

Federal Shipbuilding & Dry Dock—$3,500,000—for ways, warehouses and equipment.

Crucible Steel Co.—$766,000—for machine tools.

Carnegie-Illinois Steel Co.—$5,354,000—for building and equipment.

Prior to these awards, the Navy had already allotted $12,950,000 to several companies, including **Consolidated Steel Corp.** and **Electric Boat Co.**, for similar purposes.

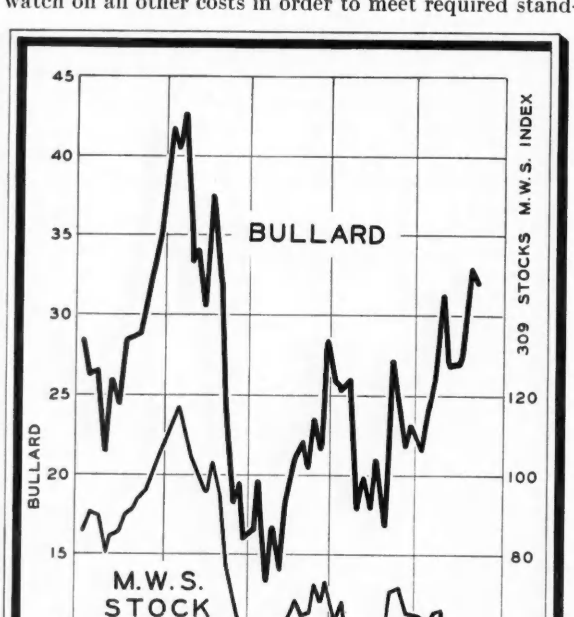
Bullard Earnings Soar

Maker of Machine Tools for the Machine Tool Industry Is Heading for New Records

BY GEORGE L. MERTON

GROWTH of activity in the machine tool industry has been the subject of much comment in the recent past although in view of what has gone before, the sharply heavier demands for automatic tools of every description should not have come as a surprise. In more recent years metal fabricators have been called upon to produce constantly better quality merchandise; and they have been forced not only to hold prices down but, for instance in the case of the automobile industry, actually to reduce selling prices from those which prevailed only a few years before.

Such insistence upon high quality has entailed much increased precision machining of various parts, a marked reduction in the number of rejected parts, and sharp watch on all other costs in order to meet required standards. Under more normal circumstances these changes would have come about gradually even as they were doing prior to 1929 but since depression influences made many manufacturers defer any but most necessitous purchases during the subsequent decade, the rush of business which developed with the outbreak of the latest war found most interested manufacturers inadequately equipped as far as new and highly efficient machine tools were concerned.



It was not as if this shortage was not realized, for trade figures had indicated that even in 1937 approximately 65 per cent of the machine tools then in use were over ten years old as compared with a normal average of but slightly more than 40 per cent. Then, too, modern requirements of smaller tolerances had made some of the younger machinery obsolete as far as precision work at production speeds was concerned. With these conditions in mind, it was not surprising that machine tool production operations rose from an average of 65.8 per cent of capacity in July, 1939, to 93.3 per cent by the close of the year and are now operating in excess of 94 per cent of capacity. Bearing out the truth of the old adage that "the shoemaker's children go bare-footed," even the machine tool manufacturers have found some of their own production equipment to be out-moded with the result that they too are in the market for numerous labor saving devices, particularly of the type manufactured by Bullard Company.

Bullard Company, originally founded 60 years ago, for many years was just another Connecticut tool maker supplying the many factories of that strongly mechanized manufacturing state. In more recent years, influenced perhaps by the realization that machines would have to become more dependable and versatile in order to cope with rising labor costs and declining selling prices, Bullard Company has confined its efforts to the development of three major automatic machine tools capable of a vast number of operations at a speed and with superlative accuracy in keeping with the ever rising standards of the company's customers .

Since the automotive industry was the largest customer for machine tools, while at the same time demanding the finest products, it is not surprising that Bullard's line has developed with the automobile manufacturers' needs in view. Fortunately, these needs were such that

Courtesy Bullard Co.

Bullard Mult-au-Matic in operation machining flange heaters

the developments were not confined in usefulness to that particular industry and as a result, every manufacturing industry that must turn or bore its materials has become a customer for Bullard's unique machines.

These machines are divided into three broad products, all centering around a single base unit which is adaptable to special work through the addition of special attachments and equipment. The leading product is the "Mult-Au-Matic" multiple lathe which contains anywhere from four to twelve lathes with the spindles mounted around a single column. This machine is particularly suited to the manufacture of parts for automobile, tractor and aviation engines as well as electrical and other mechanical equipment.

Order Backlog High

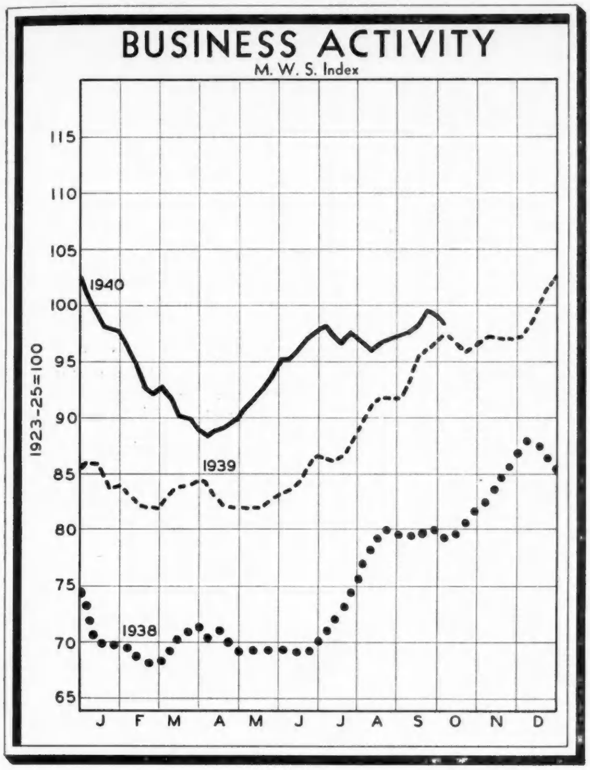
The "Contin-U-Matic" machine is also a multiple spindle affair although it is more suited to less precise work. One feature, however, is that each of its four to twelve spindles may perform a different operation at the same time, an invaluable aid to high speed production methods. The third important base machine is a vertical turret lathe which is a combination of an engine lathe, a horizontal lathe, a vertical boring mill and a turning mill. All of these machines are protected adequately by patents. Peculiarly enough, these machines are so efficient in producing parts in quantity that the machine tool industry itself is one of the company's largest buyers.

In the course of regular business, exports have played an important part in Bullard's annual sales. Such sales are still important although in recent months their relative position has been reduced. Nevertheless, Bullard still sells large amounts of machines to Great Britain and Canada with a lesser quantity to South Americans. All of the foreign business in hand is well protected from a sudden cessation of war and since production capacity is not as yet sufficient to supply immediate demand, possible cancellation of some existing orders would have no effect upon the company at this time. Even should hostilities cease abroad, there is ample domestic industrial and government work on hand and in prospect to maintain the company's shops on three shifts daily for at least the next two years.

Bullard started this year with an unprecedentedly high backlog of unfilled orders but since that time new orders have been sufficiently in excess of production capacity to raise unfilled orders on hand to nearly $8,000,000 by the beginning of September. Although no official figures have been made available since that time it is likely that the September 1st total has been further increased in the interim. Past sales records do not cover a sufficient period of time to make comparisons of importance but sales of $4,677,805 reported for the first six months of 1940 were higher than the total yearly sales for any of the three preceding years and most likely constitute a new record. Operations have been maintained at peak capacity since the mid-year report so it is possible that second-half sales will equal, if not exceed, those of the record first six months period by a substantial margin.

The proportion of sales for armament purposes and those of purely commercial significance is not known, although the former probably outnumbers the latter by a wide margin. However, even if the machines are intended for the manufacture of military goods, most of them are purchased by industrial companies and, as has already been pointed out, because they replace considerable over-age or obsolete equipment, they serve in most instances but to bring the equipment of many shops up-to-date. The machines that are replaced have been sold to foreign buyers or to small manufacturers who will replace them at some later date with new equipment, the elapsed time depending upon the degree of prosperity that may accrue to them as the industrial cycle continues its upward swing. It is not logical to assume that any machine tool maker will continue to operate at full capacity for an indefinitely long period of time for there is no industry geared closer to the fortunes of capital goods manufacturers than the machine tools. On the other hand, no priorities are likely to be enforced upon the machine tool industry since all machine produced products become important in a war economy or even in preparedness for war.

Having once been burned, the machine tool industry has been reluctant to add heavily to production capacity without first being assured of ample employment of such new facilities. In this respect, Bullard has been no different than the rest of the (*Please turn to page* 61)



CONCLUSIONS

INDUSTRY—Machine tools may prove serious bottleneck to great expansion in civilian production next year.

TRADE—Annual increase in retail sales narrows through comparison with sharp bulge last year.

COMMODITIES—Caution noted but prices show further gains. Some specialties rise abruptly.

MONEY AND CREDIT — Business loans continue to record substantial gains. Further increases probable.

The Business Analyst

Though automobile assemblies, electric power output and steel operations have shown better than normal seasonal expansion during the past fortnight, other components of this publication's weekly business index have receded sufficiently to produce a minor temporary dip in the nation's aggregate volume of **Business Activity**. For the month of September, per capita business activity reached about 98.6% of the 1923-5 average, compared with 96.9 in August and 95.0 for September, 1939. Average for the third quarter was 97.6, compared with 92.9 in the second quarter and 91.2 for the third quarter of 1939. Average for the first nine months has been 94.9, against 86.0 for the like period a year earlier. Adjusted to the basis on which the Federal Reserve Board's index of **Industrial Production** is computed, our own index of **Business Activity** was 120 in September, compared with 118 for August.

* * *

Regardless of minor brief intervals of hesitation, the underlying business trend is strongly upward under the impetus of a huge buying wave which promises eventually to tax the nation's capacity to produce. According to the National Industrial Conference Board, **New Orders** booked by manufacturers during August were 46% ahead of the like month of

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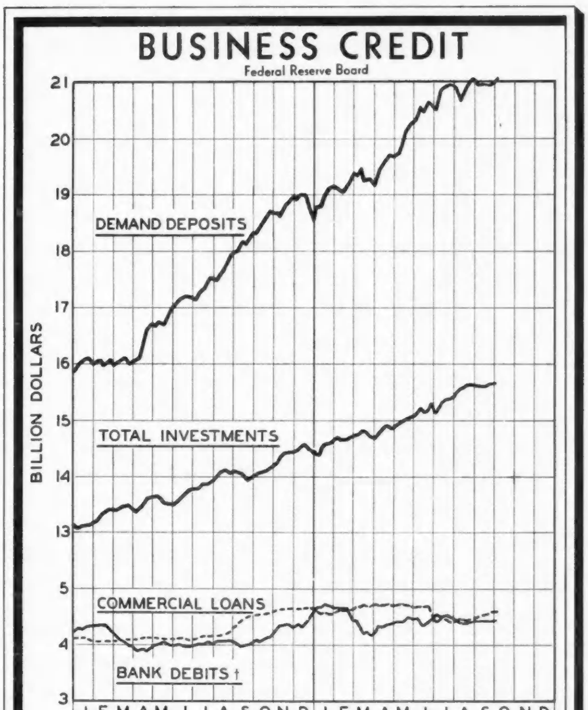


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Sept.	124	122	121
INDEX OF PRODUCTION AND TRADE (b)	Aug.	93	91	86
Production	Aug.	92	91	85
Durable Goods	Aug.	85	82	68
Non-durable Goods	Aug.	96	96	94
Primary Distribution	Aug.	90	89	80
Distribution to Consumers	Aug.	96	92	91
Miscellaneous Services	Aug.	91	89	84
WHOLESALE PRICES (h)	Sept.	77.8	77.0	79.1
INVENTORIES (n. i. c. b.)				
Inventories	Aug.	133.5	133.2	110.5
New Orders	Aug.	141.0	130.0	96.0
Shipments	Aug.	125.0	117.0	100.0
COST OF LIVING (d)				
All Items	Aug.	86.0	86.3	84.5
Food	Aug.	79.9	80.9	76.7
Housing	Aug.	86.9	86.8	86.3
Clothing	Aug.	73.0	73.1	71.9
Fuel and Light	Aug.	84.8	84.5	84.0
Sundries	Aug.	97.4	97.4	96.9
Purchasing value of dollar	Aug.	116.3	115.9	118.3
NATIONAL INCOME (cm)†	1st 8 mos.	$47,400	......	$45,000
CASH FARM INCOME†				
Farm Marketing	Aug.	$696	$668	$601
Including Gov't Payments	Aug.	738	708	717
Total, First 8 Months	Aug. 31	5,278	......	4,594
Prices Received by Farmers (ee)	Aug.	96	95	88
Prices Paid by Farmers (ee)	Aug.	122	122	119
Ratio: Prices Received to Prices Paid (ee)	Aug.	79	78	74
FACTORY EMPLOYMENT (f)				
Durable Goods	Aug.	99.4	95.6	83.9
Non-durable Goods	Aug.	107.4	103.3	108.1
FACTORY PAYROLLS (f)	Aug.	103.7	96.5	89.7
RETAIL TRADE				
Department Store Sales (f)	Sept	97	99	91
Chain Store Sales (g)	Sept.	121	122.5	114.5
Variety Store Sales (g)	Aug.	127.6	124	116
Rural Retail Sales (j)	Aug.	146	132.1	131.1
Retail Prices (s) as of	Sept. 1	92.9	92.9	89.5
FOREIGN TRADE				
Merchandise Exports†	Aug.	$349	$317	$251
Cumulative year's total† to	Aug.	2,734	......	1,896
Merchandise Imports†	Aug.	220	232	176
Cumulative year's total† to	Aug.	1,746	......	1,439
RAILROAD EARNINGS				
Total Operating Revenues★	1st 8 mos.	$2,743,252	......	$2,480,962
Total Operating Expenditures★	1st 8 mos.	2,026,990	......	1,890,328
Taxes★	1st 8 mos.	263,417	......	233,340
Net Rwy. Operating Income★	1st 8 mos.	366,258	......	269,187
Operating Ratio %	1st 8 mos.	73.89	......	76.19
Rate of Return %	1st 8 mos.	2.34	......	1.72
BUILDING Contract Awards (k)	Aug.	$415	$399	$312
F. H. A. Mortgages				
Selected for Appraisal†	Sept.	116.3	122.0	91.7
Accepted for Insurance†	Sept.	84.7	89.4	62.0
Premium Paying†	Sept.	68.3	64.4	53.0
Building Permits (c)				
214 Cities†	Sept.	103.6	102.0	84.5
New York City†	Sept.	15.3	14.0	18.7
Total, U. S.†	Sept.	119.0	116.1	103.2
Engineering Contracts (En)†	Sept.	368.0	357.8	209.3

PRESENT POSITION AND OUTLOOK

(Continued from page 43)

1939. Factory **employment** in August was 7.5% above last year, with durable goods reporting an expansion of 19%, against a recession of nearly 1% in the nondurable goods field. **Payrolls,** on the other hand, rose nearly 15%, with durable goods reporting a jump of 29% and non-durable goods paying out 3% more than a year ago. The picture reflects extensive resort to overtime work; since the rise in hourly **wage rates** has been insignificant. In all lines of endeavor employment rose to an estimated 47,518,000 in August; with unemployment dropping to around 7,657,000 compared with the depression maximum of 14,762,000 touched in March, 1933.

Income payments to individuals during August were 6% above last year and suggest a 1940 total of around $74,500,000,000. **Farm income** this year is expected to approximate $9,250,000,000; which would be $200,000,000 above 1929 in purchasing power, owing to the favorable spread between **prices received** and **prices paid** by farmers. At present writing, **raw material prices** average 2.7% below last year, **wholesale prices** are down 2.2%; while **retail prices** are up 3%.

* * *

Wholesale sales during August averaged 5.7% above last year, with the month-end cost value of **inventories** up 9.4%. August sales increase over last year amounting to more than 12% were reported in electrical goods, dairy products and poultry, hardware, jewelry, metals and machinery; while declines of over 6% were suffered by clothing, wines and liquor, and leather and shoe findings. Coming now into comparison with last year's war psychology bulge, **department store sales** in the week ended Sept. 28 were barely level with a year ago, against a four-weeks' rise of 7%.

* * *

Carloadings are now running fractionally below last year's level which was stimulated artificially by heavy speculative movement of goods into inventories; but a heavy upsurge is expected to get underway within the coming six months in response to huge home defense activities. Railroad N. O. I. in August reached $66,000,000, the largest for any month since November, 1930, and 20% above last year.

* * *

The building boom continues unabated. During the month of August, **building permits** were 25% heavier than a year earlier in aggregate estimated cost, compared with a cumulative gain of only 4% for eight months; while **construction contracts** awarded in 37 states East of the Rockies were up 30%. **Engineering construction** contracts let in the week ended Oct. 3 were 75% above last year, against a cumulative rise of only 12% for the year to date.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Sept.	5,895	6,033	4,231
Pig Iron Production in tons★	Sept.	4,173	4,238	2,879
Shipments, U. S. Steel in tons★	Sept.	1,393	1,456	985
AUTOMOBILES				
Production				
Factory Sales	Aug.	75,873	231,703	99,686
Total 1st 8 Months	Aug. 31	2,736,104	......	2,271,216
Registrations				
Passenger Cars, U. S. (p) (000)	1st 8 mos.	2,341	......	1,821
Trucks, U. S. (p) (000)	1st 8 mos.	......	......	337
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Sept.	360.2	403.2	357.9
Shipments, U. S. & Canada★ (tons)	Sept.	361.6	413.9	304.7
Mill Stocks, U. S. & Canada★ (tons)	Sept.	177.5	178.9	217.5
LIQUOR (Whisky)				
Production, Gals.★	Aug.	3,252	5,200	4,392
Withdrawn, Gals.★	Aug.	3,617	5,475	5,065
Stocks, Gals.★	Aug.	477,484	479,189	475,365
GENERAL				
Paperboard, new orders (st)	Aug.	414,966	398,191	454,817
Machine Tool Operations	Aug.	93.3	88.3	72.6
Railway Equipment Orders (Ry)				
Locomotive	Sept.	57	65	52
Freight Cars	Sept.	9,470	7,645	24,231
Passenger Cars	Sept.	21	102	3
Cigarette Production†	Aug.	15,840	15,913	16,571
Bituminous Coal Production★ (tons)	Aug.	39,240	36,080	35,016
Portland Cement Shipments★ (bb'ls)	Aug.	13,952	13,552	13,401
Commercial Failures (c)	Aug.	1,128	1,175	1,126

PRESENT POSITION AND OUTLOOK

Long strides have been taken by the **automobile** industry in the past few weeks. Production has risen to virtual capacity, where it is expected to hold until near the year-end holidays. Domestic retail sales during the closing ten days of September leaped to a level 60% above the like period last year, making a total increase of 23% for the month.

* * *

That **machine tools** may prove to be a main bottleneck hampering the future expansion of general business activity is suggested in a recent statement by Mr. Knudsen of the N. A. D. C. to the effect that national defense is already taking all but 8% of the industry's output, and that next year "civilian orders for heavy machine tools will be filled only in cases of desperate need," despite a probable 1941 output of close to $500,000,000.

* * *

Railroads are expected to purchase 100,000 new **freight cars** over the next 12 months, as recommended by the AAR. Up to Oct. 1, 33,486 have been ordered, against 33,623 in the like period last year. New orders booked by the **paperboard** industry during August were 4% ahead of July, but 9% behind last year. **Whisky** withdrawals during August were 28% below last year. **Portland cement** shipments rose 3%.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Oct. 5	97.8	98.6	97.3
ELECTRIC POWER OUTPUT				
K.W.H.†	Oct. 5	2,641	2,670	2,465
TRANSPORTATION				
Carloadings, total	Oct. 5	805,986	822,434	834,694
Grain	Oct. 5	39,387	39,392	41,182
Coal	Oct. 5	127,693	158,484	171,640
Forest Products	Oct. 5	40,728	40,668	36,824
Manufacturing & Miscellaneous	Oct. 5	341,217	329,434	330,944
L. C. L. Mdse	Oct. 5	159,636	158,034	159,822
STEEL PRICES				
Pig Iron $ per ton (m)	Oct. 8	22.61	22.61	22.61
Scrap $ per ton (m)	Oct. 8	20.62	20.54	22.08
Finished c per lb. (m)	Oct. 8	2.261	2.261	2.236
STEEL OPERATIONS				
% of Capacity week ended (m)	Oct. 10	94.0	93.0	90.0
CAPITAL GOODS ACTIVITY (m) week ended	Oct. 5	107.9	106.7	101.1
PETROLEUM				
Average Daily Production bbls.★	Oct. 5	3,489	3,800	3,436
Crude Runs to Stills Avge. bbls.★	Oct. 5	3,555	3,600	3,562
Total Gasoline Stocks bbls.★	Oct. 5	82,256	82,373	71,367
Fuel Oil Stocks, bbls.★	Oct. 5	107,964	108,450	114,123
Crude—Mid-Cont. $ per bbl	Oct. 12	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Oct. 12	1.33	1.33	1.73
Gasoline—Refinery $ per gal	Oct. 12	.05⅛	.05⅛	.06⅞

PRESENT POSITION AND OUTLOOK

Owing to the sharp rise following declaration of war last year, margin of gain over last year in **electric power** output has narrowed to 7%. Utility earnings will be affected by the increase in normal tax rate, being helpless to pass the tax along to consumers. As a matter of fact the average domestic rate for electric energy has dropped 50% during the past 25 years. Yet the ratio of taxes to revenue rose 40% between 1932 and 1940. During the past nine years, the industry has progressively increased depreciation reserves and charges to income until, at the present time most companies are showing as large depreciation charges in their reports to stockholders as are reported to the Bureau of Internal Revenue for tax purposes.

* * *

The **steel** industry is now producing at the annual rate of around 75,000,000 tons, of which about 10% is being shipped to England. National defense appropriations of about $12 billions to date will call for delivery of nearly 15,000,000 tons of steel over a period of several years.

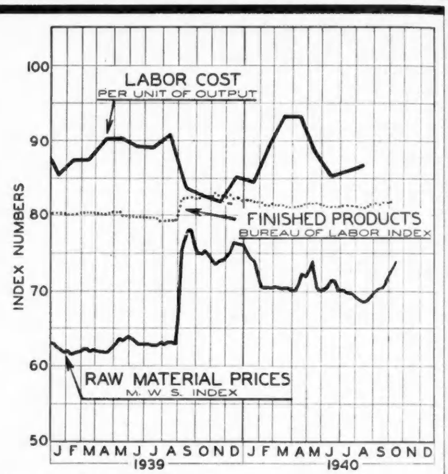
* * *

Oil industry's profits for the second half year will be impaired by higher taxes and lower prices for **gasoline.** Justice Department is proceeding against leading companies for alleged price fixing and curbing of output.

†—Millions. ★—Thousands. (a)—Revised Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U. S. B. L. S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp., (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100. (p)—Polk estimates. (pc)—Per cent of capacity. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

In a week which witnessed a tightening of war tension in two quarters—the Balkans and the Far East—and increasing doubts that the United States can avoid eventual involvement, commodity prices advanced on a broad front, while the prices of bonds and stocks gave ground. The Far Eastern situation again evoked fears of a possible interruption in the movement of tin and rubber supplies. Although as yet there are no indications that industrial purchasing agents are being stampeded into heavy inventory accumulation, there is nevertheless increasing evidence that the tempo of forward buying is picking up. Just what plans may eventually be initiated by the Government for the control and freezing of prices are not known, and probably will not be for some time after the elections. That such controls will be set up is a foregone conclusion and it is to be hoped that they will be sufficiently effective to avoid a duplication of the World War price inflation spiral, and its disastrous repercussions. In the meantime, available supplies and productive capacity for most basic raw materials are adequate, and any serious shortage are not likely at least in the near future.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	1940 High	1940 Low	Oct. 4	Oct. 11
28 Basic Commodities	124.2	105.6	110.2	111.2
Import Commodities	132.9	104.7	110.5	112.2
Domestic Commodities	118.7	105.5	110.1	110.6

	1940 High	1940 Low	Oct. 4	Oct. 11
Domestic Agricultural	123.8	111.4	117.4	118.1
Foodstuffs	120.0	100.5	105.0	105.4
Raw Industrial	128.4	101.3	114.2	115.6

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
October	Oct. 11	9.47	9.64	9.14
December	Oct. 11	9.45	9.63	8.84
Spot	Oct. 11	9.75	9.94	9.16
(In bales 000's)				
Consumption, U. S.	Sept.	......	655	625
Exports, wk. end	Oct. 11	36	21	101
Total Exports, season Aug. 1 to	Oct. 11	181	145	1,123
Government Crop Est.	Oct. 1	12,741	12,772	11,817(ac)
Active Spindles (000's)	Aug.	22,078	21,917	22,012
WHEAT				
Price cents per bu. Chi. closing				
December	Oct. 11	83⅞	82⅜	83
May	Oct. 11	82¾	81¾	824
Exports bu. (000's) since July 1 to	Oct. 5	27,533	26,576	33,449
Exports bu. (000's) wk. end	Oct. 5	957	1,412	2,651
Visible Supply bu. (000's) as of	Oct. 5	172,420	172,625	142,078
Gov't Crop Est. bu. (000's)	Oct. 1	792,332	783,560	754,971(ac)
CORN				
Price cents per bu. Chi. Closing				
December	Oct. 11	59⅜	58⅜	49⅝
May	Oct. 11	60⅛	59⅞	52
Exports bu. (000's) since July 1 to	Oct. 5	10,189	8,994	1,638
Visible Supply bu. (000's) as of	Oct. 5	39,992	37,143	15,618
Gov't Crop Est. bu. (000's)	Oct. 1	2,352,185	2,297,186	2,619,137(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The October 1 cotton crop estimate of the Department of Agriculture released last week showed a decrease of 31,000 bales from the September 1 estimate. The yield per acre was estimated at 250 pounds as against the ten year average of 198.1. American cotton consumption this year is expected to reach 8,000,000 bales according to the estimate of the Bureau of Agricultural Economics. Of course this takes into account large government purchases.

* * *

Wheat. The October 1 estimate of the government showed an increase to 792,332,000 bushels as compared with the September 1 estimate. This compares with the 1929-38 average of 754,685,000 bushels produced. Wheat going into loan may reach 35,000,000 bushels over the peak of last year. In Canada there is a possibility that the government may reduce the production of wheat in 1941 because of the estimated crop this year of 575,000,000 bushels and a carry over of 300,000,000 bushels as of August 31.

* * *

Corn. The crop estimate for October 1 was 50,000,000 bushels over the estimate of September. The 1929-38 average production was 2,299,342,000 bushels, as compared with the estimate for this year of 2,352,185,000 bushels.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Oct. 11	12.00	12.00	12.50
Exports f. a. s. N. Y.	Oct. 11	10.40	9.90	12.50
Refined Prod., Domestic*	Sept.	82,843	80,851	......
Refined Del., Domestic*	Sept.	96,485	96,383	......
Refined Stocks, Domestic*	Aug. 30	185,313	198,730	......
Copper Sales, Domestic*	Aug.	67,281	58,495	38,209
TIN				
Price cents per lb., N. Y.	Oct. 11	51.75	51.00	51.25
Tin Plate, price $ per box	Oct. 11	5.00	5.00	5.00
World Visible Supply† as of	Sept. 30	39,450	38,040	31,168
U. S. Deliveries†	Aug.	12,470	7,325	5,275
U. S. Visible Supply† as of	Aug. 31	6,583	6,567	5,339
LEAD				
Price cents per lb., N. Y.	Oct. 11	5.25-30	5.00-5.05	5.50
U. S. Production*	Aug.	47,614	44,596	39,000
U. S. Shipments*	Aug.	51,643	52,560	45,025
Stocks (tons) U. S., as of	Aug. 31	43,321	55,343	117,985
ZINC				
Price cents per lb., St. Louis	Oct. 11	7.25	7.25	6.50
U. S. Production*	Sept.	53,119	49,939	42,225
U. S. Shipments	Sept.	66,824	64,065	69,424
Stocks U. S., as of*	Sept. 30	......	44,670	95,615
SILK				
Price $ per lb. Japan xx crack	Oct. 11	2.80	2.60-2.65	3.14
Mill Dels. U. S. (bales)	Sept. 30	28,828	30,189	36,869
Visible Stocks N. n. (bales) as of	Sept. 30	44,454	46,898	27,760
RAYON (yarn)				
Price cents per lb.	Oct. 11	53.0	53.0	53.0
Consumption (a)	Sept.	30.8	35.4	34.3
Stocks as of (a)	Sept. 31	8.4	10.0	13.0
WOOL				
Price cents per lb. tops, N. Y.	Oct. 11	1.23	1.17	1.23
Consumption, period ending (a)	Aug. 31	24,799	......	27,489
HIDES				
Price cents per lb. No. 1 Packer	Oct. 11	13.00	13.00	15.50
Visible Stocks (000's) as of	Aug. 31	12,569	12,627	12,758
No. of Mos. Supply as of	Aug. 31	7.62	8.01	7.00
Boot and Shoe Production, Prs.★	Aug.	39,011	33,590	43,946
RUBBER				
Price cents per lb.	Oct. 11	20.37	19.62	20.10
Imports, U. S.†	Sept.	......	73,028	41,939
Consumption, U. S.†	Sept.	......	50,477	50,150
Stocks U. S. as of	Sept.	......	212,774	150,171
Tire Production (000's)	Aug.	4,621	4,854	5,492
Tire Shipments (000's)	Aug.	4,174	4,348	4,919
Tire Inventory (000's) as of	Aug.	9,732	9,345	8,891
COCOA				
Price cents per lb. Dec	Oct. 11	4.19	4.15	5.09
Arrivals (bags 000's)	Sept.	534	508	202
Warehouse Stocks (bags 000's)	Oct. 11	1,324	1,340	1,100
COFFEE				
Price cents per lb. (c)	Oct. 11	6⅞-7	6⅞-7	7⅝
Imports, season to (bags 000's)	Sept. 30	3,219	2,159	2,931
U. S. Visible Supply (bags 000's)	Oct. 1	1,488	1,473	1,460
SUGAR				
Price cents per lb.				
Raw	Oct. 11	2.78	2.80	3.60
Refined (Immediate Shipment)	Oct. 11	43.5	4.35	5.50
U. S. Deliveries (000's)*	1st 8 mos.	4,435(pl)	......	4,271(ac)
U. S. Stocks (000's)* as of	Aug. 31	9,258(pl)	1,737	7,410(ac)

PRESENT POSITION AND OUTLOOK

Copper. At the end of the week prices remained firm with copper at the Valley base at 12 cents and export up to 10.40 cents f. a. s. New York. Domestic consumers continue to be in the market for good tonnages. Some dealers were reported to be willing to pay as high as 12⅛ cents Valley base.

* * *

Tin. From reports out of Washington, it is likely that a decision on the erection of an American tin smelter may be reached in the near future. The smelter would probably be government financed and operated on a management-fee basis by a private concern.

* * *

Lead. At the end of last week American Smelting & Refining Company announced an advance of $5 a ton to 5.25 cents at New York. The market continues strong and active.

* * *

Zinc. The September statistics of the American Zinc Institute issued last week emphasize the tight situation in zinc supply with zinc stocks of all grades down to 30,965 tons on hand as against 44,670 tons at the end of August. The September figure was the lowest since October, 1937 when the figure was 25,817 tons. At the close of last week Leon Henderson, defense commissioner in charge of price stabilization, said that an increase in zinc production appeared probable in the next few weeks.

* * *

Silk. Raw silk takings in America during September declined contra-seasonally from the August figure. The Far East situation continues to hold the stage in the silk market.

* * *

Wool. Though less wool was imported in August than in July, the month of September figures may be higher than those of August. A wool supply may be established in the United States by the British Supply Ministry for use by both countries, it was reported from London last week. Prices in woolen goods continue to go higher.

* * *

Hides. The United States has become the principal outlet for Argentine hides with imports taking 59% of the August production. Before the present conflict the percentage amounted to only 28% of the Argentine production. Cattle prices in the United States are now virtually the best in three years with the choicest animals at $14 per hundredweight.

* * *

Rubber. During August the United States imported 26,265 tons of Dutch rubber as against 37,622 tons in July. Stocks in the hands of Malayan dealers have shown a noticeable decline lately.

* * *

Cocoa. The sharp decline in the cocoa futures trading volume has been due to the fixing of prices by the major producing countries. One of the striking effects of the European war on international trade has been a broadening of American cocoa export trade.

* * *

Coffee. The quota scheme still holds the center of attraction in the coffee market. Some of the countries are not satisfied with the quotas tentatively allotted to them.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. ★—Thousands.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Oct. 12	1¼%	1¼%	1¼%
Prime Commercial Paper	Oct. 12	⅝-¾%	⅝-¾%	⅝-¾%
Call Money	Oct. 12	1%	1%	1%
Re-discount Rate, N. Y.	Oct. 12	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Sept. 30	2,714	2,962	2,628
Cumulative year's total to	Sept. 30	109,086	......	100,011
Bank Clearings, N. Y.	Sept. 30	3,246	2,933	3,145
Cumulative year's total to	Sept. 30	116,064	......	124,469
F. R. Member Banks				
Loans and Investments	Oct. 2	24,329	24,166	22,500
Commercial, Agr., Ind. Loans	Oct. 2	4,630	4,575	4,251
Brokers Loans	Oct. 2	446	415	538
Invest. in U. S. Govts	Oct. 2	9,280	9,203	8,503
Invest. in Govt. Gtd. Securities	Oct. 2	2,582	2,576	2,240
Other Securities	Oct. 2	3,682	3,698	3,382
Demand Deposits	Oct. 2	21,152	21,080	18,306
Time Deposits	Oct. 2	5,359	5,352	5,236
New York City Member Banks				
Total Loans and Invest.	Oct. 9	9,600	9,687	8,508
Comm'l Ind. and Agr. Loans	Oct. 9	1,781	1,767	1,665
Brokers Loans	Oct. 9	288	324	411
Invest. U. S. Govts	Oct. 9	3,917	3,967	3,285
Invest. in Gov't Gtd. Securities	Oct. 9	1,410	1,405	1,125
Other Securities	Oct. 9	1,427	1,445	1,217
Demand Deposits	Oct. 9	9,737	9,688	8,214
Time Deposits	Oct. 9	719	725	654
Federal Reserve Banks				
Member Bank Reserve Balance	Oct. 9	13,927	13,800	11,739
Money in Circulation	Oct. 9	8,199	8,172	7,346
Gold Stock	Oct. 9	21,349	21,271	16,973
Treasury Currency	Oct. 9	3,048	3,046	2,924
Treasury Cash	Oct. 9	2,294	2,294	2,238
Excess Reserves	Oct. 9	6,820	6,720	5,400
NEW FINANCING (millions of $)				
Corporate	Sept.	130.5	179.4	90.2
New Capital	Sept.	68.0	67.9	16.0
Refunding	Sept.	62.5	111.5	74.2

COMMENT

Preceded by a gain of $55,000,000 in loans to commerce, industry and agriculture for all reporting Member banks in the previous week, **New York City** banks in the most recent week reported a gain of $14,000,000 in commercial borrowings—the fifth consecutive weekly gain. Commercial loans of New York banks are now at the highest point since December 29, 1937. It is also significant that recent gains have been contributed largely by small and medium loans. Total outstanding credit of all reporting banks in 101 cities are a new record high $24,329,000,000 having risen $1,000,000,000 since the last week in March.

* * *

Accompanying the rise in commercial borrowings, has been a decline in the total holdings in Government bond portfolios of Federal Reserve Banks. Holdings of government securities declined $24,500,000 in the latest week. As a result the total holdings of the system are at the lowest level in seven years. From the record level of $2,826,000,000 reached in September, 1939, the system's portfolio has now been reduced by $427,000,000. Whether this marks a definite effort on the part of the Federal Reserve to forestall an era of credit inflation, under the impetus of a defense boom, it is perhaps too early to state with conviction. At least the trend is in the right direction. Much more, however, would have to be done, to mitigate the powerful inflationary potentialities which lie in the huge reservoir of excess reserves.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1940 Indexes High	Low	Oct. 5	Oct. 12
309 COMBINED AVERAGE	67.1	45.3	54.5	52.9
5 Agricultural Implements	103.6	63.6	83.6	81.8
6 Amusements	28.8	15.8	18.8	18.9
15 Automobile Accessories	96.2	65.5	85.8	84.0
12 Automobiles	12.0	7.7	9.6	9.3
12 Aviation (1927 Close—100)	235.5	151.8	180.0	176.0
3 Baking (1926 Close—100)	12.3	7.9	9.0	8.8
3 Business Machines	117.3	75.1	94.3	89.1
9 Chemicals	174.1	120.5	149.1	147.9
20 Construction	33.6	19.4	26.3	24.9
5 Containers	251.1	168.6	207.4	203.2
9 Copper & Brass	103.6	64.4	80.0	77.4
2 Dairy Products	33.6	24.7	26.4	26.0
7 Department Stores	20.9	13.8	19.1	18.3
6 Drugs & Toilet Articles	58.4	36.1	37.4	37.0
2 Finance Companies	272.1	164.3	184.0	177.0
7 Food Brands	117.8	78.4	88.0	87.7
3 Food Stores	56.1	37.7	46.4	46.1
4 Furniture & Floor Coverings	56.9	32.6	41.4	41.0
3 Gold Mining	968.7	551.4	683.4	678.7
6 Investment Trusts	24.5	15.5	17.4	17.0
3 Liquor (1932 Cl.—100)	164.2	109.1	133.8	128.8
9 Machinery	116.2	81.0	105.6	102.8

(Nov. 14, 1936 Close—100)	1940 Indexes High	Low	Oct. 5	Oct. 12
100 HIGH PRICED STOCKS	68.30	49.40	58.55	57.27
100 LOW PRICED STOCKS	58.80	36.43	45.16	43.62
2 Mail Order	94.9	63.8	80.4	77.7
4 Meat Packing	70.0	41.5	46.0	44.1
13 Metals, non-Ferrous	158.4	106.7	133.4	129.9
3 Paper	19.4	11.8	13.7	13.4
22 Petroleum	86.7	63.1	65.8	64.5
18 Public Utilities	57.6	35.1	43.0	41.5
3 Radio (1927 Cl.—100)	12.9	7.9	10.0	9.9
9 Railroad Equipment	53.2	34.2	44.9	43.9
22 Railroads	13.6	7.3	9.7	9.3
2 Realty	2.7	1.2	2.3	1.9
2 Shipbuilding	118.1	73.5	96.2	91.4
11 Steel & Iron	85.9	59.6	73.8	72.0
2 Sugar	32.7	17.3	19.1	18.6
2 Sulphur	180.2	135.4	163.7	159.3
3 Telephone & Telegraph	47.5	30.5	34.2	33.0
4 Textiles	57.3	36.2	50.8	49.6
4 Tires & Rubber	15.3	8.4	9.7	9.4
4 Tobacco	90.2	72.8	77.9	75.8
4 Traction	43.5	32.7	40.6	40.5
4 Variety Stores	248.3	177.2	217.6	214.7
20 Unclassified (1939 Close—100)	103.9	67.3	77.0	76.8

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Remington Rand, Inc.

My 200 shares of Remington Rand common were bought at 14⅛. Do you recommend holding? Are sales being currently maintained at July levels? Is further expanson in sales and profits anticipated for the fourth 1940 quarter? How large are recent U. S. National Defense orders awarded this company? How would they contribute to earnings? What is the present status of the company's foreign operations?—M. H. M., New York, N. Y.

In spite of the fact that a good portion of sales of Remington Rand are made abroad, the company managed to report a profit of 23 cents per share on the common stock for the three months ended June 30, 1940, the first quarter of the current fiscal year, which compared quite favorably with a deficit of 4 cents per share after preferred dividends in the corresponding period of the preceding fiscal term. Business of the company was recently running some 25% ahead of a year ago and given a continuation of good business conditions, further improvement in per share results is quite likely. European sales have, of course, been seriously affected by the war, but increased volume in South America and here at home has been sufficient to offset such losses. In addition, the concern has received a certain amount of Government orders, in connection with the rearmament program, and while the amount of such orders is not definitely known, it is believed to be relatively small, but further business from this source is quite possible over coming months.

The company occupies a strong position in the office equipment field. Products include a full line of office equipment with typewriters and supplies, filing and visible index systems and cabinets accounting for about 75% of total sales. Other lines, such as tabulating and accounting machines, are becoming of increasing importance. Distribution is worldwide with foreign business normally amounting to about 35% of total volume, although presently, because of exchange restrictions and fluctuations, net income from such sources is something less than 10% of the total. Capitalization consists of funded debt of $19,060,000 followed by 184,932 shares of $4.50 cumulative preferred and 1,584,895 shares of common stock. Finances have been maintained in a strong and liquid position, the balance sheet as of March 31, 1940, disclosing cash alone of $5,734,310, somewhat greater than total current liabilities of $4,756,625. The working capital ratio was nearly 5.2 to 1. With indications pointing toward further improvement in earnings over coming months, it would appear that the current dividend rate of 80 cents per share annually is secure. While the stock may be somewhat slow marketwise, we believe that commitments made on a longer term basis may be retained at this time.

Barnsdall Oil Co.

I have 175 shares of Barnsdall Oil which I purchased at 12¼ earlier this year, believing my commitment a good war-time speculation. I have no such illusions now and prefer facts which will justify retaining this stock. Are the Company's crude oil reserves in line with domestic consumption requirements during the Fall and Winter seasons? On the basis of current demand and present price structure for crude, are earnings likely to exceed the 48 cents per share earned during the first six months of 1940?—A. E. G.; Reno, Nevada.

In the first half of 1940, Barnsdall Oil reported a profit equal to 48 cents per share on the common stock. There is no direct comparison for this figure because of a recent change in accounting policy but the concern reported a profit of 76 cents per share for the full 1939 year. This would indicate, however, some improvement in net income applicable to the stock and some further betterment may be possible over the longer term, although the more immediate outlook is somewhat uncertain due to proration and a none too strong price structure. Production has been curtailed somewhat recently, but it is possible that it may be at somewhat higher levels later on.

(Please turn to page 52)

When *Quick* Service Is Required, Send Us a Telegram Prepaid and Instruct Us to Answer Collect.

An ANNOUNCEMENT

GENERAL MOTORS recognizes the present emergency. It realizes its duty to the nation to advance in every way within its power the program of National Defense. It has already assumed most important obligations. But in addition General Motors believes that industry today has a second responsibility—one of vital consequence. American defense demands first call on those products of industry, both as to scope and volume, which are essential to protecting the nation against aggression. It also demands, even though the fact be less generally recognized, a sound and virile economy. One is the complement of the other. A sound economy is essential to the objectives of the defense program.

In line with its conception of this dual responsibility, General Motors presents at this time its 1941 offerings of motor cars. It has combined with the important responsibilities it has assumed under the defense program its normal responsibilities incident to our peacetime economy. The new line of motor cars is now on display before the critical judgment of the public at the Automobile Shows and in General Motors dealer showrooms in every community throughout the land.

It has always been the policy of General Motors to build into its products the greatest possible measure of value. It has created an engineering group which, from the very beginning of the industry, has made far-reaching contributions to technical progress. It has contributed importantly to the motor car's becoming the serviceable mechanism of today. From the electric self-starter in the early days down through the years, one engineering achievement has followed another. And in great variety: tilt-beam headlights, Duco lacquer finishes, crankcase ventilation, syncro-mesh transmission, Fisher No Draft Ventilation, Knee-Action wheels, Turret Top, automatic transmissions and steering column gearshift.

But that is not all! General Motors technicians have demonstrated their versatility by developing such engineering products as the Diesel locomotive, destined to revolutionize transportation by rail. The Allison engine—an outstanding development in aviation engine practice and now coming into mass production—is making a contribution to one highly technical phase of the problem of National Defense. And in an allied field, tetra-ethyl lead as a component of gasoline has revolutionized the relationship of the fuel to the engine, producing more power with less weight and with greater efficiency. As a result, not an airplane leaves the ground today without in effect reflecting tribute to the technical capacity of General Motors. We are proud of this record of accomplishment. It is the accumulated experience of such an engineering group that has been built into the General Motors 1941 models.

In the different lines of motor cars com-

Answers to Inquiries

(*Continued from page 49*)

The company may benefit indirectly to a certain extent from the mechanization program of the United States Army.

The concern is solely a producer and marketer of crude oil. Because of efforts to increase production and reserves, Barnsdall Oil is now an important producing unit. Reserves are believed to be ample for some time to come. Profits will, of course, continue to depend on production and fluctuating prices of crude oil. Capital stock is outstanding in the amount of 2,258,779 shares, preceded by purchase money obligations and long term bank notes of $7,575,979. Finances are satisfactory, the balance sheet at the 1939 year end disclosing current assets of $6,129,301, including cash of $3,785,108, comparing with total current liabilities of $1,594,624. We expect continuation of the current 15 cent quarterly dividend. At current levels, the issue affords a reasonable yield and, while appreciation possibilities over the near term appear to be somewhat limited, retention of moderate commitments for the longer future may be considered.

Jewel Tea Co.

Is Jewel Tea a sound type of issue to hold at this time, for appreciation as well as income? I note that earnings are at present running slightly ahead of 1939, but operating expenses also appear to be mounting above last year. Do you foresee a period of greatly stimulated sales for this company as an indirect beneficiary of our 15 billion dollar National Defense spending? I bought my 80 shares at 74¾ last year.—G. H. Mc., Cleveland, Ohio.

Jewel Tea Co. reported earnings of $1.31 per share for the 28 weeks ended July 13, 1940, which compared with $1.29 per share in the corresponding period of the year before. Sales so far in the current year have been running about 15% above those of a year ago and should be at favorable levels over coming months since the company should benefit from higher levels of general consumer purchasing power in reflection of Federal spending for the rearmament program, as well as generally better business conditions. Gains in earnings may be restricted to some extent, however, by higher operating costs and taxes, but it is believed that income will continue to be at sufficient levels to make the current 60 cent quarterly dividend rate secure.

The company operates some 120 food stores in the Chicago area, as well as about 1,567 motor truck routes which operate in about 6,000 towns in 43 states and contribute about 80% of total sales. Business tends to be rather stable, although influenced to a certain extent by changing levels of consumer purchasing power. Earnings record of the company has been satisfactory, and although profits dropped to $1.63 per share in 1933, results for 1939 of $2.83 per share compared favorably with 1929 income which was equal to $3.02 per share. Over the last ten years, dividend distributions have averaged about 89% of earnings. Capitalization is simple, common stock outstanding in the amount of 555,830 shares having the only claim on assets and earnings. Finances have been maintained in a very satisfactory position, the balance sheet as of July 13, 1940, disclosing current assets of $6,355,354, including cash and marketable securities of $3,632,644, as against current liabilities of $1,968,632. While the stock has a degree of appreciation possibilities over the intermediate term, it is principally attractive for the yield afforded. We recommend retention, particularly where income is of prime importance.

Cutler-Hammer, Inc.

Kindly favor me with your latest advice on Cutler-Hammer. Is general market sentiment the only thing holding this stock back? Or, at its present price have the company's near term prospects been fully discounted? What is the status of backlogs, new orders and from what sources? I have 100 shares bought at 25.—P. S., Flushing, N. Y.

Cutler-Hammer manufactures a wide line of electrical control devices, including heating-regulators, rheostats, magnetic clutches and brakes, safety switches and various related products. Its customers are mainly among the basic industries such as the steel, textile, paper and shipbuilding and other such manufacturing fields. Thus earnings tend to rise and fall in line with general business conditions, accentuated to some extent by heavy and relatively fixed overhead costs. Earnings in the first half of 1940 were equal to $1.12 per share as against 36 cents per share in the corresponding period of last year. Further earnings gains are expected over coming months since the company should benefit at least indirectly from the rearmament program, as well as from good levels of general business activity. The concern can readily fill incoming orders from inventory and consequently operations need not be based on an unfilled order backlog. It is expected that the Excess Profits Taxes, as applied to this company, will not retard earnings to any serious extent. Finances continue to be quite satisfactory, the balance sheet as of the 1939 year-end disclosing working capital in the amount of $3,819,973 and the current ratio was approximately 5 to 1. Capitalization is quite simple, the 659,998 shares of common stock having the only claim on assets and earnings. The current quarterly dividend of 50 cents per share will doubtless be continued and may be supplemented before the year-end by extras. In consideration of the outlook for further earnings gains, as well as the reasonable yield afforded at current levels, the shares have a good degree of appeal at this time and we recommend their retention.

R. J. Reynolds Tobacco Co.

How do you regard the investment outlook for Reynolds Tobacco "B" now? I understand that the company's inventories of high cost tobacco had finally been depleted. Is the current price of tobacco low enough to materially affect profit margins? Give me your views in this respect in relation to present cigarette prices—wholesale and retail—consumer demand and taxes. Have reduced appropriations for advertising cut volume on "Camels"? How is "Prince Albert" currently contributing to earnings? My investments total 125 shares at 41¾. Please advise—R. S., Sioux City, Iowa.

Reynolds Tobacco is one of the three largest producers in the industry, and has maintained a strong competitive position, its Camel cigarettes having held the industry leadership in sales for some time past. Besides Camels, the company is principally known for its Prince Albert smoking tobacco, although other brands of smoking and chewing tobaccos are also produced. Total sales of the company have been showing increases over this

time a year ago which have been better than the industry as a whole. Sales of the industry do not vary to a great extent from year to year, although consumer purchasing power does exert a certain amount of influence, principal changes being the result of shifting consumer preference from one brand to another. However, well controlled and extensive advertising has helped this company to maintain its place in the field. Thus, with better levels of consumer purchasing power to increase volume and lower leaf costs to decrease expenses, profit margins are expected to widen and earnings for 1940 will probably approximate $3 per share on the class "B" stock, as against $2.56 per share on that issue the year before. Recent Federal taxes were offset almost entirely by increases in wholesale prices. Thus, it is likely that the current quarterly 50 cent dividend rate will be continued and the earnings outlook suggests the possibility of an extra before the year-end. Finances are strong, the balance sheet at the 1939 year-end disclosing current assets of $150,280,356, as against current liabilities of $13,476,747. The stock is a desirable holding for the reasonable yield afforded and has moderate appreciation possibilities over the longer term. Retention of your commitment is counselled.

New Jersey Zinc Co.

May I have your views on the price appreciation and dividend prospects for N. J. Zinc? This stock is almost 10 points below my original purchase price for 50 shares, despite the fact that zinc prices are higher and demand large. Are the company's facilities large enough to fill present armament requirements . . . accelerated demand from the construction industry? Do present earnings already reflect capacity operations? What about earnings from royalties on smelting patents?—Dr. S. R., Chicago, Illinois.

New Jersey Zinc Co. reported a profit equal to $1.69 per share on the capital stock for the six months ending in June of 1940, which compared with $1.04 per share reported in the corresponding period of last year. Zinc prices have been firmer and demand has been at good levels with indications pointing toward a continuance of this favorable situation over the intermediate future. Accordingly, it is likely that 1940 results will be measurably improved over the $2.70 per share reported for

1939. The company is the largest domestic producer of zinc and has properties in New Jersey which contain high-grade zinc ore, as well as a lead-zinc mine in Virginia, a silver-copper-zinc mine in Colorado and minor properties in Wisconsin and New Mexico. About 50% of the company's production is sold as zinc oxide mainly to tire and paint manufacturers, the balance being sold as metal to various industries. Reserves are quite extensive and mines in New Jersey contain high-grade ore free from lead. With demand from general industry expected to be at good levels over coming months, stimulated to some extent by the armament program, operations should be at a high rate for some time to come. Royalties are likely to remain rather stable, although those from abroad may be adversely affected by foreign exchange restrictions and fluctuations. Capital stock outstanding in the amount of 1,963,264 shares represents the entire capital setup of the company. Finances are not reported, but are believed to be quite sound. For some time past, the company has followed a liberal policy as regards dividends and current quarterly rates of 50 cents per share may be supplemented by extras before the year-end. Excess Profits Taxes will probably be only moderate. The stock appeals to us as one of the better situated in its group and we recommend retention for both income and appreciation possibilities.

National Supply Co.

Do you recommend retention of 175 shares of National Supply bought at 8¼? The sensational comeback in the company's earnings is encouraging, but I am doubtful about the oil industry's needs for additional drilling equipment for the rest of the year. How do your recent analyses estimate this company's prospects to the year-end? How should a prolonged European war affect its outlook? I would also like information about sales, earnings and prospects from the company's gasoline and Diesel engine enterprises. —E. J., Dallas, Texas.

National Supply Co. is an important manufacturer of oil field operating equipment such as engines, pumps, pipes, drilling rigs and tools. Earnings are primarily dependent on oil drilling activity, tempered to some extent by competition which is keen, but not destructive. Recently operations have been at somewhat better levels and, although the concern reported a deficit equal to 16 cents per share on the common stock for the first half of 1940, this nevertheless represented considerable improvement over the deficit of $1.42 per share reported for the first half of 1939. It is expected that sales will be relatively well maintained over the intermediate future and pipe prices have been at better levels, thus helping profit margins. The company has recently received orders from both the War and Navy Departments for Diesel engines and further business from this source is possible. Finances continue to be sound and liquid, the balance sheet as of June 30, 1940, disclosing current assets of $39,893,056, as against current liabilities of $6,320,554. Following funded debt of $9,600,000, there are 226,404 shares of $5.50 prior preferred, 64,687 shares of $6 prior preferred, 279,548 shares of $2.00 preferred and 1,155,528 shares of common stock. Moderate arrears on the preferred issues remove the common stock from dividend consideration for the time being. With operations indicating considerable improvement for this year over the deficit of 87 cents per share reported for 1939, the common stock has a degree of longer term appeal and retention of your commitment is recommended on that basis.

International Telephone & Telegraph Corp.

I have 100 shares of I. T. & T. acquired at 7¾. Do you think it wise to retain my investment, pinning my hopes on progress and earnings for the company in South and Central Americas—and successful revitalization of its Spanish and Shanghai properties? What has the loss of Bessarabian stations meant to I. T. & T.?—E. L., Los Angeles, Calif.

International Tel. & Tel. is a holding company which operates telephone companies in South America, Europe, the West Indies and Shanghai, manufacturing plants located in the principal countries of Europe and selling their products all over the world except in the United States and Canada, and radio and cable circuits mostly in South and Central America. 56% of the assets are in Latin America and in the United States and account for about 57% of gross. Telephone companies represent 69% of assets, manufacturing subsidiaries 19% and radio and cable communications the remaining 12%. Communications contribute the larger part of gross, but manufacturing accounts for about an equal part of net income. Thus the wars have a serious effect on the earnings of the company. Capitalization is featured by a rather heavy funded debt ahead of the stock and finances cannot be said to be overly strong, for, although the balance sheet as of December 31, 1939, disclosed current assets of $54,465,311 as against current liabilities of $29,703,238, cash in the United States amounted to only $6,815,996.

In the first half of 1940, International Tel. & Tel. reported a deficit on the common stock equivalent to 2 cents per share, which compared with earnings of 21 cents per share in the preceding year, both figures excluding all European, Mexican and radio and radio telegraph subsidiaries. Central and South American properties are showing moderate gains, but such gains are not sufficient to offset losses. Under the above circumstances, there is little of an optimistic nature in the outlook for the stock, but in consideration of present depressed levels, we feel that moderate commitments may be retained for the time being.

Crucible Steel in Profitable Era

(*Continued from page 31*)

resulted in an increase of more than $6,600,000 in operating profits and changed a loss which amounted to $8.78 a share of common stock in 1938 to a profit of $2.54 a share for 1939.

The leverage factor of the common stock is amply illustrated by results of the first six months of this year. Gross sales for the six months period ended June 30 were $30,990,537 as compared with $19,218,500 for the same period of 1939. Although the increase in sales was less than $12,000,000, net profit after all charges, including reserves for heavier incomes taxes, was $2,404,883 as compared with $350,821 a year ago. After provisions for pre-

ferred requirements, earnings were equivalent to $3.52 a share of common stock as compared with a deficit of $1.09 a share for the first half of 1939. Up until this year the company did not report on a quarterly basis so there is no data with which to compare the company's operating results for the first nine months of the current year. Allowing for the new preferred stock requirements the company earned the equivalent of $7.05 a share of common stock or more than in any full year since 1929 and probably better than in the first 9 months of that most profitable year. The imposition of heavy taxes this year will, however, probably prevent Crucible from equalling or bettering the 1929 record of $11.66 a share. In the event that the proposed $15,000,000 issue of bonds had been outstanding instead of the present debt of $10,800,000 it is probable that the amount available for the common shares would have been moderately larger since it is probable that the company can do its new financing on a much better basis than the present 4½ per cent and 5 per cent interest bonds.

Order backlogs on hand at the mid-year were reported to have been at high levels and new orders are said still to be coming in in excess of production capacity. This, together with the fact that contemplated changes in corporate relations with subsidiaries are expected to effect a considerable saving in operating expenses and taxes, should make record earnings for 1940 a distinct possibility. Over the longer term, the addition of new facilities made possible by the proposed financing and the continued research for new products, processes and application of old products should result in the achievement of a greater degree of earnings stability than has been afforded in the past.

As long as preparedness plans continue, the ordnance division of the company will become increasingly important as a contributor to sales volume and earnings. Ordnance sales in the five years prior to 1937 averaged about 3 per cent of the total amount. Now, with increasing emphasis upon military materials, the proportion is growing considerably larger and may, in the near future, approximate as much as 20 per cent of sales as materials are required for the new Atlantic

Fleet which is expected to equal in size our present Pacific Fleet. Then, too, aviation materials will probably grow much more important in view of the tendency now to armor plate fighting ships with light but very tough alloys of steel and other metals.

During the past several years the market value of the common stock has quite closely followed the movements of the market in general and this year's market performance of the common shares is no exception to the rule.

Undoubtedly, the company would not be immune to the influences of a German victory in England nor to many of the adverse potential developments which might grow out of the conflict. However, as a specialist in alloy steels which are growing more and more important to industry in general, it is probable that the effects of any such calamities would not be worse than upon many other companies, and after their influence had been mitigated to some extent by time and subsequent developments it is probable that Crucible Steel Co. of America would be found in the van of the recovery.

The Economic Prizes of War

(*Continued from page* 15)

another step into Rumania which brings her to the shore of the Black Sea. Of the two arms of the pincers, the southern seems likely to be the active one for a while, in view of the Russian and Turkish obstacles that face the Germans. But Germany is already reported to have submarines in the Black Sea and the whole Eastern section of the Mediterranean is the first probability in the way of winter warfare, aside from an attack on Gibraltar which would have purely strategic rather than economic motives.

Ranking behind these moves in immediate probability, yet not to be discarded as possible lines of attack are the British, French and Belgian colonies in southern and western Africa. Great Britain holds the sea approaches to all this part of the continent and there is no indication that this control will soon be lost. However, the ineffectiveness of the navy in stopping the capture of Norway suggests that too much complacency as regards African copper, gold and food supplies is dangerous.

The stake of the United States in the new phase of the war just ahead is both military and economic. We hope to see the British successful everywhere in resisting Axis attacks. But granting that the dictators have at least one or two more good blows left in their systems, the regions examined are the ones where they would be most telling on the British, most significant to us, and finally, most probable of any that could and would be struck before the winter season is over.

New Tax Law Effects on Investors

(*Continued from page* 17)

companies, registered diversified investment companies, and foreign corporations not doing business in the United States. Also exempt are, of course, those corporations which are exempt from the income tax.

That, generally speaking, is about the scope of the excess profits tax.

So far as the tax may prove burdensome to some corporations, it is certainly true that there are others having substantial earnings who will not be affected by it at all. Companies with large capitalization and with ample margin towards an 8 per cent return on invested capital are obviously in the group that will be very little affected. Those which have earned considerably more than 8 per cent on their capital may still not be affected if current earnings are no greater than the average of 1936-1939. Many of our railroad and public utility companies will not be affected because of their heavy capitalization and regulated earnings. Some of our very large industrial companies may also come out unscathed. For instance, it is estimated that the U. S. Steel Corporation can have annual earnings in excess of $10 a share on its common stock before it need be affected by this tax.

In enacting this law, Congress itself recognized the existence of many shortcomings. A study for the improvement of the law is already under way. The law has been subjected to much criticism and on many important grounds.

To begin with, it is pointed out that to a large extent, it is really not an excess profits tax at all. For instance, the major part of the estimated 1940 revenue under it will come from the substantial increase in the normal tax. Then, it is also pointed out that the four year period used as a yardstick for measuring tax exemptions was, for many companies, not normal years. Some of them had not gotten out of the depression and certainly had not reached a point where it could be said that their earnings were normal in that period.

Another criticism is that the bill taxes bigness as such. The income brackets running from $20,000 to $500,000 and paying tax rates from 25 to 50 per cent are classified on the basis of mere amounts instead of on percentages of profits. Excess earnings above $500,000 are taxed at 50 per cent, whether such earnings represent an increase of one per cent or of 100 per cent over normal earnings.

It may well be, therefore, that this bill will apply only to the year 1940 and that the law will be changed at the next session of Congress.

What Value Common Stocks?

(*Continued from page* 21)

enced by the investment objective which he has outlined for himself.

For the purpose of this discussion, however, it is asumed that common stocks are held and will continue to be held, at least until their complete elimination from investment plans becomes more urgent than it is at the present time.

The common stock investor may accept as certain two major conditions which will affect common stock values and dividends for the duration of the emergency. These are a sub-normal ratio of common stock prices to earnings and the probability that a very substantial slice of any increase in common stock earnings will be taken by taxes. Both of these conditions are directly related.

The low price-earnings ratio, of course, reflects all of the many uncertainties implied by the war, and recognizes, as well, the fact that a

goodly portion of increased earnings resulting from war and defense business will be largely transitory and heavily taxed.

The many changes which have been wrought since the World War necessarily make the experience of those years an unreliable precedent. Nevertheless, it is both interesting and significant to note that in the years 1916-18 inclusive an average of 22 industrial issues sold at prices, which at their highs, averaged only about six times earnings. A number of these companies showed very substantial gains in earnings and the price of their shares showed good response, but appreciably less than would doubtless have been the case had earnings given the same performance under normal conditions.

Recently a group of 100 common stocks representing heavy industries, consumers goods industries, railroads and public utilities showed an average price-earnings ratio of about 11 to 1, based on estimated 1940 earnings. This is the lowest ratio to earnings at which common stocks have sold since 1937. In the latter year, however, earnings were declining, whereas at the present time the trend is sharply upward. Even so the present ratio is nearly twice as high as during the World War. Does this mean then that earnings, say over the next twelve months, can practically double with only scant response from the price of common stocks? Does it mean that known and potential taxes will wipe out virtually any increase in earnings? Neither of these extremes is likely.

If the premise is accepted that no war price inflation such as took place during the World War will occur, then it is also reasonable to assume that the price earnings ratio may be maintained at a higher level than in the 1916-18 years. The United States was already at war when the excess profits tax was enacted in 1917; the upward spiral in prices was well under way; and rising prices played an important part, both favorably and otherwise, in the earnings of representative industrial corporations. Food companies and others engaged in the production of consumer goods were caught in the pincers of rising prices and the difficulty in immediately passing along increased costs and prices to consumers. Heavy industry companies, on the other hand, were able to record sizable inventory "profits" and a considerable portion of their business was done on a "cost plus" basis.

A repetition of the World War experience may be avoided this time by prompt and effective utilization of price controls. Heavy taxes will also act as an effective curb on huge earnings, at least to the point where normal price earnings ratios may not decline to the World War levels.

The vastness of the scale upon which the defense program in the United States is being planned makes it a foregone conclusion that the two tax programs enacted this year are only the beginning. Revenues which these tax bills will provide will be only a small portion of the total amount needed to finance the defense program.

Even so the indicated effects of the excess profits tax, recently enacted, are enough to destroy any vision of

huge war-time profits and juicy stock melons. This legislation is discussed in detail on page 16. The accompanying tabulations reveal the possible extent to which various representative companies may be affected.

On some companies the impact of taxes will be heavy, on others it will be comparatively light. Once the 50 per cent excess profits tax is effective against earnings in excess of the base period, or 8 per cent on invested equity capital, only 38 cents out of every $1 increase can accrue to stockholders. The tax penalizes companies with a simple capital structure and a comparatively small invested capital and whose earnings have been fairly good during the base period. On the other hand companies such as U. S. Steel and Crucible Steel, with a heavy capitalization, will have considerable leeway before there is any material increase in their tax liability.

Many companies identified with such front rank war industries as steel, machine tool, aircraft, shipbuilding, etc., will be required to expand their plant facilities. These plant outlays may be amortized over a five-year period and such companies will be able to claim credit for these write-offs against excess profits.

On the other hand companies in the food, public utility retail and other relatively stable industries are more concerned over the increase of 33 1/3 per cent in the normal tax. Companies in this category may this year report earnings lower than in 1939, largely as result of the increase in normal taxes. Many of these companies, have followed a policy of gearing dividends rather closing to earnings and increased taxes may force a number of casualties in this group. The degree of vulnerability may be observed in the accompanying tabulation, particularly in the case of such companies as American Tobacco, Reynolds Tobacco, Corn Products Refining, etc.

In time, of course, these companies with the aid of increased public purchasing power may be able to offset largely the prospective increase in taxes. Many of the common stocks of consumer goods industries, long favored as income producing vehicles, will continue in demand and the justification of any wholesale switching to companies more closely identified with the defense effort is not apparent at this time. The investors' task, however, is to determine the relative impact of heavier taxes on such issues with a view to weeding out the most vulnerable.

In the heavier goods industries, there are certain to be many companies which will be able to show substantial earnings and pay good dividends, if only in contrast with a comparatively indifferent record in recent years. Stockholders' expectations in these respects, however, as well as hopes for potential price appreciation, will be less subject to disappointment if they are kept modest and not with an eye on the World War profits.

What Can We Expect of the Motor Industry?

(Continued from page 25)

more conjectural and fluctuate more sharply for Chrysler than for General Motors. At a guess, however, Chrysler should distribute this year somewhere between $7 and $9 per share or a yield range, in terms of present quotation, between 8.7 and 10.1 per cent; while total General Motors distribution probably will be $4 or yield basis of 8 per cent. Both companies are buttressed by notably strong finances, permitting liberality in dividend policy when earnings are favorable and some distribution even in down years such as 1938. From the end of 1934 to date Chrysler's lowest annual distribution was $2 and highest $12; General Motors' lowest $1.50 and highest $4.50.

A glance of the record of shifts in the shares of the total domestic market held by the various automobile manufacturers over a period of years is enough to suggest at once why Packard, Hudson, Studebaker, Nash-Kelvinator and Graham-Paige are more or less perpetual "low price" stocks.

General Motors held 32.8 per cent of the domestic market in 1929, according to R. L. Polk & Co. registration statistics, and had 46.5 per cent of it during the first half of this year. Chrysler had only 8.9 per cent of the market in 1929, 24.5 per cent in the first half of this year. Ford had 33.9 per cent of the market in 1929, or more than General Motors, but had only 19.4 per cent in the

first half of this year. All other makes combined had 24.4 per cent in 1929, and only 9.6 per cent in the first half of 1940.

Over the seven years 1933-1939 Chrysler's share of the market was more stable than that of any other manufacturer, holding consistently between low of 22.9 per cent and high of 25.8. Over the same period General Motors ranged between 38.4 per cent of the market and 44.8 per cent.

The showing in the first half of this year—with G. M. up 2.8 points in trade position over the first half of 1939, Chrysler down 2 points and Ford down 1.6 points—is not necessarily indicative of changes for the full year. It is worth noting that Ford's introduction of the Lincoln-Zephyr and Mercury models in recent years has not significantly increased this company's share of the available market. Ford at best seems to be about holding its own or slipping slightly.

Outside of the Big Three the combined share of the market held by all others apparently made bottom in 1935 at 8.5 per cent of the total. It tends to rise moderately in good years as these makers partially share in the increased demand for cars above the lowest price brackets. Thus the combined figure for this group moved up to 11.3 per cent in 1937, slipped to 9.7 per cent in 1938 and rallied to 10.7 per cent last year. Like the Big Three, it is of course being aided now by increasing public purchasing power and if 1941 lives up to its presently indicated outlook the group's share of the market should broaden—perhaps to as much as around 12 per cent.

Among the so-called independents Packard and Studebaker have fared best in recent years, each achieving substantial success with completely new lines of lower priced cars. Reflecting introduction of the "Champion" in the spring of 1939, Studebaker sales for that year spurted to 114,196 units, comparing with 52,605 in 1938 and 91,475 in 1937. Unit sales, in fact, topped 1929 and were the best since 1928. While gain in dollar volume is not as spectacular, it has nevertheless reached a new recovery high. Profit last year was $2,923,251 or $1.31 per share. In the first half of this year net was $957,309 and 43 cents per share. Cash and net working capital position has shown marked improvement in recent years.

Introduction of lower price models lifted Packard unit sales from a low of 6,071 in 1934 to recovery peak of 109,518 in 1937, and dollar sales over the same period from $14,618,000 to $94,422,000. Latter figure compares not unfavorably with gross of $107,542,000 in 1929 but the difference is a radically lower profit per car. For example, the company had net profit of $25,183,000 in 1929 while best recent year was net of $7,053,000 in

1936. Last year net was only $545,867 or 4 cents per share. In the first half of this year there was a deficit of $102,366. Financial position has been well maintained through a difficult competitive period.

Costs throughout the automobile industry will be higher, especially as regards materials and also probably to some extent in labor. Unit cost and profit, however, are vitally affected by volume of production and prices of the new cars average moderately higher than 1940 models. Therefore, if volume in 1941 lives up to the present indications of trend, profits of well-situated companies will be eminently satisfactory.

The Movie Stocks Today

(*Continued from page 29*)

good stories, convincing production and adequate help. Top-flight executive, directors' and featured artists' salaries have remained inviolate although only the actors and the directors can definitely prove their worth through very tangible and incontrovertible box office records. As far as can be seen at this time, reduction of picture costs has resulted in a defiintely inferior product, although there are notable exceptions. Before the advent of sound pictures in 1926 the movies were on the way down. Color has since been introduced with no appreciable effect so that it is hard to visualize what new appeal to the sense of reality must be discovered to prevent the motion picture industry from resuming the decline which was reversed when the movies learned to talk.

Times of national prosperity have usually been times of good earnings for the motion picture industry. But never before has the industry experienced a rising prosperity based upon hard work such as must be the case in the present instance. The average consumer will very probably have more money to spend during the coming months but it is not likely that he will leave any appreciable sum in the movies unless the show offered is worth the price charged and that price is not greatly higher than it used to be. The average consumer has become highly price conscious since deep depression days. On the other hand, wholesale conscription of man-power for military service will not hamper admissions unless the same man-power is shipped out of the country, far away from motion picture theatres. On balance, it would seem as if attendance will continue to gain moderately, perhaps equalling the 1937 record of 4,400,000,000 admissions. Despite the record number of admissions, record earnings will not accrue until average admissions again approach those of 1929 when the figure was 30 cents.

With a large amount of available business in foreign countries, most of the major producers have more or less attempted to get as much of it as possible. They will have to be written down after a longer or shorter period of time and accordingly will find reflection in future earnings statements. Most of the companies have readjusted their positions in recent years with the result that the industry as a whole is more sound financially. Accordingly, while revenues will be lower this year than they were last year, moderately better domestic business will cushion the blow of foreign losses so that none of the companies are in any particularly stringent financial position nor will they likely be so hampered unless the adverse factors prevail for a long period of time.

While such a thought may be comforting to the management, and perhaps to the creditors, it is not particularly so to stockholders who are anticipating sizeable dividends nor is it a very firm basis upon which to base the expectation of a market advance in the movie securities. Since they are all priced rather fully to discount the worst that may be expected to happen, their market value may not go much lower and in the event of a sharply higher general market, the shares may appreciate in sympathy. What is more to the point, however, is that they do not now possess any apparent quality that would cause them to rise in company with market leaders although they still have a number of sufficiently unattractive features which might permit them to lead the movement should a sharp decline in the general market develop from higher than present levels. Hence movie stocks are good speculations to get out of when and as better opportunity presents itself.

Bullard Earnings Soar

(Continued from page 41)

trade. However, with such assurances now in hand, Bullard is completing a new machine shop and foundry which should add materially to production capacity while at the same time assisting in reduction of costs. This reduction will accrue by virtue of the fact that the receipt of suddenly increased business in excess of plant capacity has caused the company to farm out some portion of its work; especially for parts.

As might be expected from any capital goods manufacturer, Bullard's earnings have kept close pace with capital goods demands. The earnings record of the past ten years has been marked with moderate deficits in 1930 to 1933 and again in 1938, although in the latter year the deficit amounted to but 8 cents a share of common stock. In the same period the highest earnings per share reported were in 1937 when net income was equal to $3.19 a share of common stock. Last year's earnings of $1.04 a share were satisfactory when compared with those of the previous year, although they were strongly overshadowed by the results of the first six months of this year when $4.35 a share, twenty-seven times greater than in the same period of 1939 and more than four times greater than all of last year's earnings, was reported. Despite the fact that the new tax schedules will probably take a large share of the company's increased earnings, it is probable that net income will surpass that of any previous year of which we have a record.

The company has a simple capital structure with 276,000 shares of no par value common stock representing the sole capital obligation. New machinery and equipment installed or to be installed this year is said to cost in excess of $1,100,000 and it may be necessary for the company to finance at least a part of this commitment through bank credit. However, at the end of June the brief balance sheet indicated a much stronger financial position than the very satisfactory one at the beginning of the year. At the June date, total current assets of $3,728,593 were not only $2,000,000 higher than a year ago, but also compared very favorably with the best showing of any previous year. Cash items of $791,507 were nearly six times greater than a year ago, although in view of the business in hand it would seem as if some additional cash would be desirable. Inventories of $2,641,731, as compared with about $2,000,000 at the first of this year and $1,567,583 on June 30, 1939, were apparently large but their size and expansion is accounted for in a great part by the fact that the figures includes work in progress, as well as raw materials. Such being the case, the inventory position is not likely to be the source of near term future grief.

At the same time, current liabilities were also considerably higher, totalling $1,493,698 on June 30, as compared with $350,348 a year before. They were, however, $261,311 lower than at the outset of the current year and the asset ratio is now close to 3 to 1, as compared with somewhat less than 2 to 1 at the close of 1939. Further improvement in the financial position is indicated over the balance of this year.

Although the company's earnings fluctuate widely from year to year, the dividend record is remarkably good when all things are considered. Only in the four deficit years previously mentioned were dividends suspended. At other times the amounts of payments have varied, although in most cases their size depended upon that year's earnings. So far this year the company has declared $1.25 a share in dividends, as against 25 cents a share in both 1939 and 1938 and $2 a share in 1937. The last payment was made in September thus leaving another distribution for the current year. It is probable that this coming payment will include a sizeable extra, although a prediction as to the size of the disbursement is now impractical.

The longer term prospect contains the probability that the machine tool industry will lapse into a more conservative pace where twenty-four hour operations will not be necessary, although such time still seems to be at least two years away and possibly longer. In the meantime the shares are still selling at levels at which they might be expected to be found in normal times even were business only half as good.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQURED BY THE ACTS OF CONGRESS OF AUGUST 24, 1912, AND MARCH 3, 1933

Of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST, published bi-weekly at New York, N. Y., for Oct. 1, 1939.

County of New York } ss.
State of New York }

Before me, a Notary Public in and for the States and county aforesaid, personally appeared Laurence Stern who, having been duly sworn according to law, deposes and says that he is the Managing Editor of THE MAGAZINE OF WALL STREET *and* BUSINESS ANALYST and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York, N. Y.

Editor—None.

Managing Editor—Laurence Stern, 90 Broad Street, New York, N. Y.

Business Managers—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.)

Ticker Publishing Company, Inc., 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (Stockholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecilia G. Wyckoff (bondholder), 90 Broad Street, New York, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th Street, Wilmington, Del., the stockholders of which are: C. G. Wyckoff, 90 Broad Street, New York, N. Y.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustee, hold stock and securities in a capacity other than that of a bona fide holder; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is—(This information is required from daily publications only.)

LAURENCE STERN,
Managing Editor.

Sworn to and subscribed before me this 9th day of October, 1940.

[Seal] THEODORE M. FARLEY.

(My commission expires March 30th, 1941.)

Anaconda

(*Continued from page 27*)

spring by means of a serial bank loan and $990,000 of the remainder was redeemed on the first of October leaving only slightly more than $4,000,000 of the original issue as yet outstanding and reducing fixed charges substantially. Subsidiary retirement of debts and refinancing has further strengthened the consolidated set-up of the company.

The consolidated balance sheet of the company dated December 31, 1939, showed the company to be in the best working capital position for many years. Net current assets at the year end which amounted to $91,421,499 not only compared very favorably with the $78,942,212 reported at the close of 1938 but were dramatically higher than those of 1934 which totalled but $211,458. Of the $112,014,116 total current assets reported at the close of last year, $30,155,532 was cash while the remainder—with the exception of $12,000,000 of accounts receivable, etc.—consisted of supplies on hand, materials in process and $48,477,502 of finished products.

Total current liabilities amounted to $20,592,617 and of this amount only $2,000,000 was bank loans, although nearly $9,000,000 was for accrued taxes.

Reflecting the sharp upsurge of copper demand during the last half of 1939, Anaconda earned $2.33 a share of common stock. This amount was more than double that of the previous year although it was still well below the $3.62 a share reported in 1937. Results for the first half of the current year were sharply higher than those of a year ago and the $2.02 a share reported for the most recent period was even markedly higher than in the final half of 1939 which included about 5 months of war business. Had it not been for the fact that Anaconda had deducted an extra $2,000,000 in anticipation of additional taxes net income would have been higher than that of 1937 which marked a peak in recovery earnings although even as it was reported the 1940 results were only slightly lower than those of the previous record year. Inclusion of equities in non-consolidated subsidiary earnings would have increased first half 1940 earnings by 5 cents a share.

First half results included at least 5 good months prior to the collapse of France and accordingly it is not likely that second half reports will make quite as good reading.

The outlook for 1941 depends in great part upon the outcome of the war. Should the Germans continue to fail to conquer England, copper business should be equally as good as it is today. Should England fall then it is probable that our own defense preparations would proceed at an even greater rate and the demand for copper metal and products would be greatly increased. Should England achieve an equitable peace or a victory, then our preparedness activities would lag with a consequent decline in the demand for copper. The last contingency is the most remote one, and the demand for copper will mount to a point beyond the productive capacity of domestic mines with consequent benefit to foreign producers of which Anaconda is the largest.

As I See It!

(*Continued from page 7*)

any government post was supposed to have been sidetracked in Spain—and as things turned out this was a mistake of the first magnitude.

His record as tool of the "appeasers" from the time he was Foreign Minister in 1935 speaks for itself. In June of that year he made a deal with Von Ribbentrop, then Hitler's Ambassador-at-Large, which permitted Germany an increase to 35% of the total naval tonnage of the British Empire — submarine class 45%—on Hitler's promise never to engage in "unrestricted submarine warfare!" Churchill warned and protested against this stupidity. In 1939 when Germany completed her program and when it suited her purpose to build beyond it, Hitler abrogated this treaty.

Again Hoare was the center of a storm in the Abyssinian crisis when he intrigued with Pierre Laval to hold up serious sanctions against Mussolini and secretly agreed to support a plan whereby Il Duce would be confirmed in his Ethiopian con-

quest. This scandal forced his resignation as Foreign Minister. He lay low for six months when Baldwin appointed him First Lord of the Admiralty.

Then shortly after Churchill was made Prime Minister, Sir Samuel was appointed Ambassador to Spain. Spain promptly became a hotbed of intrigue, while strong rumors of peace overtures and appeasement began to emanate from that country. Indignation rose to such heights in England that Chamberlain publicly disavowed these reports. But Sir Samuel Hoare remained in Spain (next door to his friend Pierre Laval—man behind the throne in the Vichy French Government)—in an atmosphere friendly to both Mussolini and Ribbentrop in the "court of Franco."

On such a background, what is coming to light would seem to indicate that the appeaser, Sir Samuel Hoare, is involved in the episode which permitted the Vichy French warships to pass Gibraltar and get through into the Atlantic unmolested—culminating in the humiliating Dakar incident.

Prime Minister Churchill in his report on October 8 suggested that this matter was more suited to private discussion than public airing. He said: "Neither the first Sea Lord nor the Cabinet were informed of the approach of these ships to the Strait of Gibraltar until it was too late to stop them passing through. Orders were instantly given to stop them at Casablanca or, if that failed, to prevent them approaching Dakar."

It is interesting too that the Dakar fiasco was followed by Chamberlain's resignation—that "disciplinary action" is to be taken against those involved at Gibraltar. On this background as well, it is easy to understand H. G. Wells' bitterness against Lord Halifax, Minister of Foreign Affairs for Britain—who is known to be a rabid appeaser.

From the shifts in the Government that are taking place in London, it is apparent that radical steps will be taken to clean house.

The Role of Russia

Not only has the appeasement group proven dangerous to the welfare of the British people, but it has

been responsible for the failure to win Russia over to the side of Britain.

Events seem to bear out that Stalin's suspicions and distrust of the Baldwin-Chamberlain governments were justified—and now for the first time in many years the possibility of an entente exists.

In spite of Germany's gain in Rumania, Stalin can readily upset the applecart by an attack on the German position. It is already being said that Stalin is waiting for winter to set in before he makes a move in Hitler's direction.

The Hitler-Stalin Pact was never popular with Mussolini. What Hitler considered to be a brilliant coup at the time may yet turn out to be a first rate blunder. Many times I have wondered if Il Duce ever said "I told you so" to Der Fuehrer.

The Russian pact was an expedient for use in Hitler's war of nerves. Events have proved it to be not only without real substance for the Nazis, but it may yet break the back of the Nazi plan for world conquest. The signing of this pact did not unite Nazi-Germany with Russia. It did not even set up separate spheres of influence. Each went their own way—about their own business.

The first loss for the Nazis was in Poland which they conquered, but which they were obliged to share with Russia. . . . It brought Russia right up to the German frontier. . . . When Stalin moved into the Baltic States the Nazis moved out—which was loss number two. Loss number three took place in Finland when the Nazis did not dare raise a hand.

We can chalk up this sequence of events as victories for Stalin because without a non-aggression pact with Hitler, he would not have undertaken these conquests—nor could he have won them without a war. Personally, it enabled Stalin to vent his spleen against Chamberlain and the appeasement group.

Now let's see what the Nazis gained: They secured a bombshell for their war of nerves. Temporarily it was a great advantage. It enabled Hitler to launch his blitzkrieg in the East. But it brought the fall of Chamberlain and the rise of Churchill—which was to their detriment. . . .

Then Stalin, safe in the security of his pact with Hitler, moved into Bessarabia. Alarmed, the German High Command stopped in their tracks—and England got her chance to build up her defense. As a result of this incident the character of the war changed, bringing the end of the blitzkrieg along with the possibility of a long war. It would almost seem that Stalin stepped in at the psychological moment and turned the tide against Germany.

Of course, Stalin was acting in his own interests because it is not to his advantage to have a strong Germany. Thus he cannot be too pleased with the proximity of the Nazis in Rumania and on the Black Sea.

Now Stalin is feverishly mobilizing his forces. His sinking of the Rumanian cruiser trespassing on his preserves is an indication that he expects to deal with a firm hand.

It remains to be seen whether Turkey's warning that two million bayonets await any invader of her soil is bravado. We will know soon enough what Stalin's attitude toward Germany will be by what Turkey does.

The war has reached a crucial and decisive stage. The search for oil leads to Haifa. Is the Battle of Armageddon at hand? The bible prophesies that the hordes will be turned back at the Gates of Jerusalem.

American Locomotive

(*Continued from page 37*)

enlargement program begins to speed up. Boilers, heat transfer equipment, Diesel engines and numerous other Alco products should be in increasing demand for expansion of shipbuilding, petroleum refining and chemical manufacturing facilities made necessary by defense orders and their fulfillment.

Despite the fact that the majority of years' operations are unprofitable for the company, a surprisingly strong financial position has been maintained. The company has no funded debt and at the close of last year had no bank loans or similar obligations. The capital structure consists of 351,961 shares of 7 per cent, $100 par value preferred stock and 767,900 shares of no-par value common stock. The preferred stock dividends are cumulative and it is this feature that has restricted the investment merit of the common shares for as of the end of September there were unpaid preferred accruals of $43 a share. During the past several years the management has promised to submit some plan for the satisfaction of these accruals but up until now nothing radical has been proposed. So far this year preferred dividends of $3 a share have been paid but since the mandatory amount of preferred dividends for the period was $3.50, the net effect was to increase the accumulations by a moderate amount. With the prospect of better business to come for some little time ahead it is probable that preferred share holders will be more inclined to listen to a proposition to remove the arrearages without the payment of the actual cash involved. Accordingly, some such plan may be expected to be offered in the near term although what it may involve cannot be said now.

The very nature of the company's business has contributed to the volatility of the shares from a market standpoint. The heavy accumulation of preferred dividends lends a certain degree of speculative attraction to that issue while the earnings leverage of the common shares is spectacularly apparent once the company's sales pass the normal break-even point. Since the railroad equipment industry typifies capital goods in their most unadulterated form such securities are considered to be the most direct way in which an investor can participate in a generous cross-section of the entire capital goods field. Unquestionably, the present recovery is most sharply represented by capital goods demand, a fact that should soon be recognized by increasing public interest in the shares of American Locomotive.

Neither the preferred nor the common stock can be considered an investment in the strict sense of the word since the volatile nature of the industry and the uncertainties of continued income violate some of the cardinal principles of investment. Both, however, possess considerable speculative appeal for they have not as yet recovered substantially from the effects of the poor years that have been recently left behind nor have their market prices as yet fully discounted the much brighter prospects for the next several years.

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